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Cover photo: Learning in Zenzelma, Ethiopia. **Photo:** Kirsi Pere/MFA

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Acknowledgements

My last close contact with Finnish aid was almost thirty years ago. During the intervening three decades I have observed it only intermittently and from a distance. Hence, when agreeing to take on this independent review of Finnish aid, I did not quite know what to expect. The work for the review has allowed me to delve into Finnish development cooperation through field visits to Ethiopia, South Sudan and Vietnam, reading dozens of evaluation reports, and through conducting numerous interviews. It also forced me to familiarize myself with the recent empirical research on aid effectiveness.

This review, in a short time span, would not have been possible without the assistance of many people in both Finland and the recipient countries visited. First, I would like to extend my thanks to the members and Secretary-General of the Committee for Foreign Affairs (*ulkoasiainvaliokunta*) of the Finnish Parliament (*eduskunta*) who took the time for interviews either in person or through a short questionnaire. Similarly, I am grateful for the interviews and/or responses to a questionnaire from the Chair, members and the Secretary-General of the Development Policy Committee (*kehityspoliittinen toimikunta*). The views and experiences both Committees shared were most helpful for this review.

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Ritva Reinikka

Abbreviations

ACP	Asia-Caribbean-Pacific Working Party
AfDB	African Development Bank
AIDS	Acquired Immune Deficiency Syndrome
AsDB	Asian Development Bank
BRICS	Brazil, Russia, India, China, South Africa
CGIAR	Consultative Group on International Agricultural Research
CIFOR	Center for International Forestry Research
CODEV	EU Council: Working Party on Development Cooperation
CSO	Civil society organisation
DAC	Development Assistance Committee
DARA	Independent non-profit organisation on humanitarian action
DFID	Department for International Development, UK
DPC	Development Policy Committee
DPP	Development Policy Program
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EU	European Union
FAO	Food and Agriculture Organization of the United Nations
GDP	Gross domestic product
GEF	Global Environmental Facility
GFATM	Global Fund to Fight AIDS, Tuberculosis and Malaria
GNI	Gross national income

HIV	Human immunodeficiency virus
HIPC	Highly Indebted Poor Countries
ICI/IKI	Institutional Cooperation Instrument
ICRAF	The World Agro-Forestry Center
ICRC	International Committee of the Red Cross
ICT	Information and Communications Technology
IDB	Inter-American Development Bank
IDPS	International Dialogue on Peacebuilding and Statebuilding
IFAD	International Fund for Agricultural Development
IKI	Finland's Institutional Cooperation Instrument (in Finnish)
ILO	International Labor Organization
ISDR	International Strategy for Disaster Reduction
KEPA	Kehitysyhteistyön palvelukeskus (umbrella organisation for Finnish civil society organisations working in development cooperation)
LCF/PYM	Local Cooperation Fund/paikallisen yhteistyön määräraha
LDC	Least Developed Country
LIC	Low Income Country
LMIC	Lower Middle Income Country
M&E	Monitoring and Evaluation
MDG	Millennium Development Goal
MFA	Ministry for Foreign Affairs of Finland
MOPAN	Multilateral Organisations' Performance Assessment Network
MIC	Middle Income Country
NGO	Non-governmental organisation
OCHA	Office for the Coordination of Humanitarian Affairs

ODA	Official Development Assistance
ODI	Overseas Development Institute
OECD	Organisation for Economic Cooperation and Development
PBF	Peacebuilding Fund
PROFOR	Program for Forests
PRSP	Poverty Reduction Strategy Paper
REDD	Reducing emissions from deforestation and forest degradation
SDG	Sustainable Development Goal
SDI	Service Delivery Indicators
UMIC	Upper Middle Income Country
UN	United Nations
UNAIDS	Joint United Nations Program on HIV/AIDS
UNDP	United Nations Development Program
UNEP	United Nations Environment Program
UNESCO	United Nations Educational, Scientific, and Cultural Organisation
UNHCR	The UN Refugee Agency
UNICEF	United Nations Children's Fund
UNODC	United Nations Office on Drugs and Crime
WBG	World Bank Group
WFP	World Food Program
WHO	World Health Organization
WIDER	World Institute for Development Economics Research

Executive Summary

Last year the Finnish Parliament (*eduskunta*) requested the Ministry of Foreign Affairs to commission an independent review about the effectiveness, results and impact of Finnish aid today. This report responds to this request. It begins with a discussion on performance in developing countries, particularly in Africa where Finnish aid has largely concentrated, and on evidence about the impact of aid. One issue is clear - the stagnation that marked the so-called "lost decades" in the 1970s-90s has been dramatically reversed over the past twenty years. Robust economic growth has emerged across low income countries (LICs), a large number of these countries have risen to become lower middle income countries, and the past decade has been marked by substantial reductions in global poverty.

The question of the impact of aid is more complex. It is not easy to determine the precise role of aid in the turn-around. However, considerable links can be established between the policy reforms supported by donors and improved economic performance. Similarly, many of the investments financed by aid have made real contributions to better living standards and human development outcomes. In particular, there have been substantial improvements in school enrollment, child mortality and access to clean water in the developing world, and more recently in Africa. The combination of increased government expenditures on education and health, resources freed through debt relief, and the increased aid targeted to the social sectors has had a substantial impact on these outcomes. At the same time, an extensive evaluation carried out by the European Commission did not find negative side effects of "aid-dependency" from the budget support it and its member countries have provided in Africa.

More generally, the large empirical literature - both at the macro and micro level - shows, on balance, positive effects of aid on growth, poverty reduction and many human development outcomes. Evidence does not support the "aid curse" argument, or that aid would make the poor worse off.

Within this broader context, the report reviews the performance of Finnish aid over the recent past from the results perspective. We begin with a discussion of the latest assessment of the quality of aid by the Center for Global Development and Brookings Institution, two US think tanks that have worked extensively on aid effectiveness. The idea is that the better the quality of aid, the better are the results on the ground. Their quantitative analysis benchmarked 31 donors across four key dimensions - maximizing efficiency, fostering institutions, reducing the burden on recipients and transparency/learning. The analysis indicates that, overall, Finland is a solid although not a top performer. Finland does particularly well in fostering institutions; this Finnish strength was also evident during the field visits to Ethiopia and Vietnam, two long-time partner countries, organized as part of this review.

The results perspective is also a focus of the most recent Finnish aid strategy, the so-called development policy program (DPP). This review is very supportive of this thrust, highlighting the increased use of country strategies in bilateral aid and “influencing plans” in multilateral organization as a way to become more results-focused in practice. However, more work is needed to create a “results-based culture” across the entire aid program.

To avoid the disconnects between new themes of each DPP, on the one hand, and between the timescales of the DPPs and implementation, on the other hand, the review endorses the recent proposal made by the Development Policy Committee of shifting from the four-year DPPs to a longer-term statement of principles and objectives of Finnish aid to be endorsed by Parliament. In addition, it would be useful to set up a larger independent group which would take the findings of this review further and make additional concrete suggestions, including a roadmap, on how best to increase the impact of Finnish aid.

The report then reviews two key sectors in Finnish aid – water and forestry – and assesses Finnish performance in the main crosscutting themes – gender, inequality and climate sustainability – that were the focus of the most recent DPP. On water and forestry, the combination of Finnish expertise, long-standing engagement at the project level and active cooperation with key global actors have produced many successful investments. At the same time, more work is required to improve their results focus. Gender has been a long-standing theme where Finland has provided global leadership. As highlighted in the 2012 DAC peer review, gender – and the environment – are now reflected more effectively at the project level. Moreover, the poverty focus of country strategies is clear and consistent.

The report fully endorses the content of recent bilateral country strategies and their public dissemination. Efforts should be made to make them more compelling to outside audiences and to include more data on results generated by the projects and programs. Country program evaluations also deserve compliments. They would equally benefit from a more effective use of data and evidence. In fragile states Finland has played an important policy role internationally and has increased its support to them. However, as a modest-sized donor, Finland should not over-extend, but should rather focus its bilateral support on a few fragile country recipients at any given time. Finnish bilateral aid frequently uses traditional project instruments that have focused on inputs and activities. Finland has also – selectively and effectively – used budget support. An interesting innovation that could be tested is a results-based aid instrument.

Like many donors, Finland has made support for civil society organizations (CSOs) an important component of its aid. CSO work enjoys public support, and examples of impressive outcomes were observed during the field visits. Two concerns, however, emerged. First, the CSO program is highly fragmented. This is likely to adversely affect its cost-efficiency. Similarly, overseeing a large number of projects is a challenge. Second, a comprehensive evaluation of the effectiveness and impact of CSO work by the MFA is long overdue.

The report underlines the importance of private sector development where Finland has much to offer. Finnfund plays an important developmental role, especially in LICs and fragile countries. Given its track record, Finnfund deserves a capital increase. The discussion of the effectiveness of the concessional credit instrument is more nuanced. The problems with the past scheme are discussed, including its negative evaluation. Nevertheless, it is potentially a significant instrument for public sector investments in countries that graduate from grant funding. Hence, the development of options for a revised instrument, with much improved administration and a more strategic approach, is highly recommended.

The impressions gained during the visits to Ethiopia, South Sudan and Vietnam were overwhelmingly positive. Relationships with governments were excellent, marked by an appreciation for Finland's expertise and funding. Country programs were selective and "best practices" were observed in water projects in all three countries. A special needs education project in Ethiopia (which was once a problem project) is now providing effective national-level support. Finland is making important contributions to the aid effectiveness agenda in both Ethiopia and Vietnam, often leading sector working groups, focusing on a limited number of sectors, and actively supporting the use of government systems. Both embassies were actively engaged in overseeing the aid program and in both countries there was a positive relationship with the local EU team.

At the same time, a number of areas for improvement were identified during the field visits. Consistent with earlier observations, more work on producing data about impact is a priority. Allocating a bigger share of resources for analytic work would pay large benefits. Consideration should be given to creating better synergies between CSO work and sector priorities in bilateral country strategies - without undermining the independence of civil society. Finally, much more attention needs to be paid to reaching out to key shareholders in Finland. There were many examples of success that should be widely disseminated. During the field visits it became clear that results data do exist at the project level often making a strong case for development impacts.

The MFA has assessed efficiency of the multilateral organizations it supports. Endorsing this assessment, the review underlines the importance of ensuring that, over time, funding levels become consistent with the quality of work by each multilateral agency. This is especially important as fragmentation is a recurring problem. On humanitarian aid, substantial efforts at reform have been made. International evaluations have complimented the Finnish approach, in particular, its active support for using the UN system and qualified Finnish CSOs for delivering humanitarian aid.

The evaluation function in Finnish aid has improved considerably and is transparent. Again, the content of the evaluations could be much improved by the projects and programs becoming results-oriented from the start. Finnish aid would also reap significant benefits by resurrecting a modest empirical research program, closely linked to Finnish-funded activities on the ground. Collaboration with the Finnish research community

on an empirical research agenda - and combining forces with local researchers - would be a win-win.

Regarding administrative arrangements within MFA, the review underlines the need to ensure that the capacity to institute a "results-based culture" is put in place. It identified two specific issues. First, there is a need for greater decentralization of financing decisions to embassies. For example, the programs financed with the local cooperation funds and operated at the embassy level demonstrate high impact, despite their small size. Second, the importance of designing a reasonable career stream for technical staff cannot be over-emphasized. Skilled and experienced staff are absolutely critical for the quality of Finnish aid - especially for its effectiveness and impact.

There is an urgency for putting in place a more effective program of outreach and communication. The long-standing support for aid in Finland has been increasingly challenged and it is now key that the major stakeholders involved in aid be more engaged in discussing the strengths and challenges Finnish aid faces. By combining better monitoring and research with a strong evaluation system, the contributions of aid to developing countries can be more accurately identified and many of the misconceptions can be more constructively addressed.

The review concludes by highlighting first the many strengths of Finnish aid. It then proposes "a ten-point program" of recommendations to address the challenges identified. This set of recommendations should make it possible to generate, measure and disseminate even stronger development results on the ground - in support of an aid program that every Finn can be proud of.

1. Introduction

Over the past fifty years development cooperation has been an integral part of Finland's foreign policy. Its official aid program is an important component of Finland's contribution to the collective international effort to end poverty and build a fairer world. In 2014 disbursements of Finland's official development assistance (ODA) were €1.23 billion or 0.6 percent of GDP.¹ Apart from ODA, civil society organizations and private citizens also actively participate in international development. In addition to their commercial ventures, Finnish businesses make a contribution by taking higher investment risks in developing countries often with the support of Finnfund.

Development cooperation enhances Finland's credibility in global engagements in the United Nations (UN), international financial institutions, and various regional and country-level efforts in the developing world. In the past couple of years, for example, Finland has actively engaged in the post-2015 negotiations in the UN to help define the sustainable development goals (SDGs), successors to the millennium development goals (MDGs). In the early decades of Finnish aid, Nordic cooperation was active. Today Finland's main reference group is the European Union.

Regular surveys have found that most Finns (82 percent in 2014) support the country's aid efforts.² Recent public debates, however, give a different impression. Development cooperation that used to be "beyond criticism" is being challenged today. Global solidarity seems less fashionable. In fact, one major political party has gone as far as proposing eliminating most of ODA and replacing it with voluntary contributions accompanied with a tax deduction.³

More broadly, aid effectiveness is an increasingly common theme, even among those who are supportive of aid. Many parliamentarians across the political spectrum as well as the general public are asking: Does aid achieve results on the ground? Is it value for money? Should the traditional government-to-government aid be reformed, given that the times have changed and the private sector and civil society are today much more important actors in developing countries? Such questions are posed against the background of three years of a shrinking Finnish economy and, as a consequence, substantial fiscal adjustment to be undertaken by the new Government, including at least a 25-percent cut in total ODA. Moreover, the conflict in Ukraine and the shifting geopolitical sit-

1 All ODA eligible expenditures, including a contribution to the EU budget for foreign aid, administrative costs, and costs incurred for receiving refugees. For decades, the official policy has been to allocate 0.7 percent of GDP to ODA, but this UN target has been reached only once in 1991.

2 <http://formin.finland.fi/public/default.aspx?nodeid=38613&contentlan=1&culture=fi-FI>

3 Eduskunnan ulkoasiainvaliokunta, 2014.

uation requires closer attention to traditional foreign and security policy, leaving less space for international development.

1.1 Independent review – background and approach

In 2014 Government gave the Finnish Parliament (*eduskunta*) a report on effectiveness and coherence of Finland’s development policy.⁴ Parliament held two plenary sessions where effectiveness and impact of Finnish aid were vigorously debated. The Foreign Affairs Committee (*ulkoasiainvaliokunta*) based on several hearings and, in consultation with other parliamentary committees, issued a detailed statement.⁵ Following these processes, Parliament requested that Government, among other things, commission an independent review of the effectiveness/results of development cooperation in its current form.

Regarding the request, the Ministry for Foreign Affairs (MFA) divided the independent review in two parts. For the first part, the UN University’s WIDER institute in Helsinki prepares and publishes an overview on what is known globally about aid effectiveness. The second part – this report – focuses on effectiveness, results, and impact of Finnish aid today, including aid modalities (projects, programs, sectoral or budget support, core funding, and multi-bi) and channels (bilateral, regional, multilateral, non-governmental organizations, private sector, and institutional cooperation), approaches (e.g., human rights based approach), cross-cutting objectives, and thematic priorities.⁶ The Ministry set the objective of this part of the independent review as follows: “...on the basis of an analysis of existing material, to present a general indication on how effective and impactful Finland’s development cooperation can be considered and why.” Specifically, the terms of reference define the scope of the report as follows:

- Finnish development cooperation (not including policy coherence);
- A strategic and system-wide review (meta-analysis, not an evaluation) at “normative, guideline, instruction, and overall result level” (i.e., not at the level of individual programs, instruments, or interventions);
- An assessment of the attention that Finnish aid attaches to effectiveness, results and impact, and challenges it faces in this regard;
- Country, regional and multilateral programming (the latter should also cover influence in multilateral organizations);

4 Government of Finland, 2014a

5 Eduskunnan ulkoasiainvaliokunta, 2014.

6 ‘Effectiveness’, ‘results’ and ‘impact’ can have different meanings. In the context of OECD-DAC led process of aid effectiveness (Paris, Accra, Busan) ‘effectiveness’ refers to how development cooperation partners perform their tasks, ‘results’ to the short- of long-term effects a development intervention (whether at output, outcome or impact level), and ‘impact’ to a long-lasting effect of aid.

- A flexible timeframe (e.g., five years);
- Full draft report to be produced during February 12 to April 30, 2015.

Given the above, and in view of the short timeline for its completion, the approach in this report is four-fold. *First*, using facts and figures, it examines recent economic and social progress in developing countries, especially in Africa where much of Finnish aid has concentrated. It also exploits available aid effectiveness literature and research, including making use of quantitative - and internationally comparable - indicators of the quality of donor aid. *Second*, the report draws on documents related to Finnish aid, in particular, evaluation reports. *Third*, structured interviews were carried out among members of the Foreign Affairs Committee of Parliament and the multi-stakeholder Development Policy Committee.⁷ Similarly, interviews were conducted among the staff and management in the Ministry for Foreign Affairs, Ministry of Finance, and Finnfund as well as NGO and private sector representatives. *Fourth*, field visits were conducted in Ethiopia, South Sudan and Vietnam on March 4-25, 2015 during which projects and programs supported by Finnish aid were visited on the ground, including activities of CSOs and Finnfund. During these visits extensive discussions were held with representatives of the recipient governments, other donors - including the UN Resident Coordinators, EU Ambassadors/ Heads of Cooperation, and the World Bank Country Directors - the Finnish ambassadors and embassy staff, Finnish technical staff, and beneficiaries of Finnish aid. All these research papers, reports, interviews and field visits have contributed to this assessment.

This report investigates how good an investment Finland has been making, through its ODA, towards poverty reduction and a fairer world - and how effective it has been in making that investment. Specifically, section 2 takes a look at developing countries today, with a focus on Africa, and discusses the impact of aid. Section 3 examines how Finnish aid ranks globally on the quality of aid. Section 4 looks at Finnish aid strategies and policies from the results perspective. Section 5 explores effectiveness and results in government-to-government bilateral aid, covering program countries, fragile states and aid instruments. Section 6 focuses on civil society organizations, while section 7 reviews participation of the Finnish private sector. Section 8 summarizes the strengths and weaknesses of Finnish aid based on the field visits. Section 9 is devoted to multilateral aid, while section 10 covers humanitarian assistance. Section 11 discusses evaluation and research for learning and accountability. Section 12 reviews key issues in aid administration, especially what is required from structure and staffing to achieve better results, and from communications to disseminate them more effectively. The final section concludes with ten recommendations.

⁷ In person and through a short open-ended questionnaire.

2. Developing countries, Africa, and impact of aid

The developing world today is very different from fifty years ago when Finland started its development cooperation. The emerging and developing economies are now bigger than the advanced economies when GDP is measured in purchasing power parity terms.⁸ Moreover, this shift is expected to set the trend for decades to come. The BRICS - Brazil, Russia, India, China and South Africa - are all developing or newly industrialized countries, distinguished by their large, fast-growing economies and/or significant influence on regional and global affairs.

Further, the number of low-income countries (LICs) has almost halved since 2001.⁹ As of 2013, 34 countries were classified as low income, down from 65 in 2001, following the graduation of 31 mostly resource rich and transition economies to middle-income status. Today, low-income countries are predominantly agriculture based, small and fragile, and tend to have weak institutions. Foreign aid is an important source of finance for these countries. Five of Finland's 7 long-time partner countries - Ethiopia, Kenya, Mozambique, Nepal, and Tanzania - belong to this group, while Vietnam and Zambia have now achieved lower middle income status (LMIC).

Another group of poor countries that is often referred to is the least developed countries (LDCs). It consist of 48 countries that have been classified by the UN as "least developed" in terms of their low gross national income (GNI), their weak human assets and their high degree of economic vulnerability. Five of Finland's partner countries - Ethiopia, Mozambique, Nepal, Tanzania and Zambia - are LDCs.

2.1 "Africa rising"

While most LICs are still in Africa, the continent's growth record over the past two decades has been impressive. For the first time since their independence, a number of Afri-

⁸ PPP takes into account price differentials across the economies and overstates the size of less developed economies at current market exchange rates.

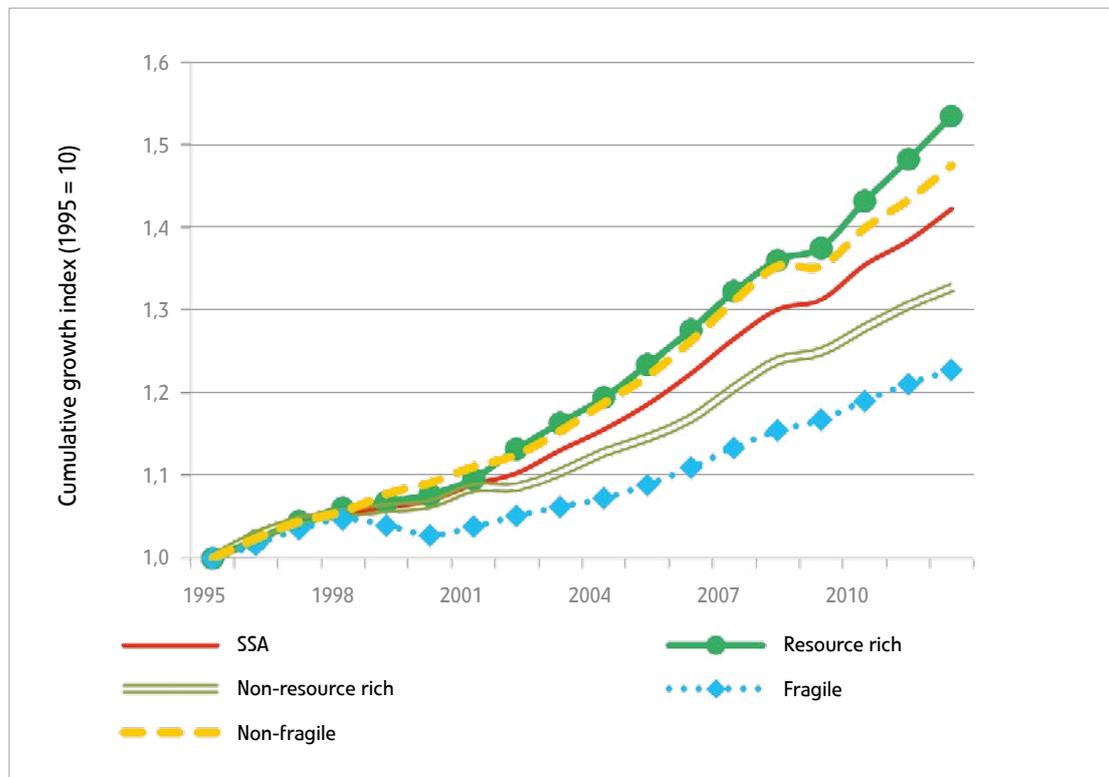
⁹ In 2015 low-income economies are defined as those with a GNI per capita, calculated using the World Bank Atlas method, of \$1,045 or less in 2013; middle-income economies are those with a GNI per capita of more than \$1,045 but less than \$12,746; high-income economies are those with a GNI per capita of \$12,746 or more. Lower-middle-income and upper-middle-income economies are separated at a GNI per capita of \$4,125.



THE NUMBER OF
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2001.

can countries has achieved growth rates that place them among the fastest growing economies in the world. Moreover, despite the weak global economy after the financial crisis in 2008, economic growth in Sub-Saharan Africa continues to be strong. The continent's turn-around began around the mid-1990s and, over the past two decades, its GDP has expanded by about 5 percent per year. However, given high population growth, average per capita growth has been about half of that. Growth has been driven by improved economic policies and investment, part of which has been financed by foreign savings, including from China. As Figure 1 shows, resource-rich and non-fragile countries have grown considerably faster. A marked shift towards a more democratic rule has accompanied the positive economic developments in many countries.

Figure 1. Economic growth in Sub-Saharan Africa



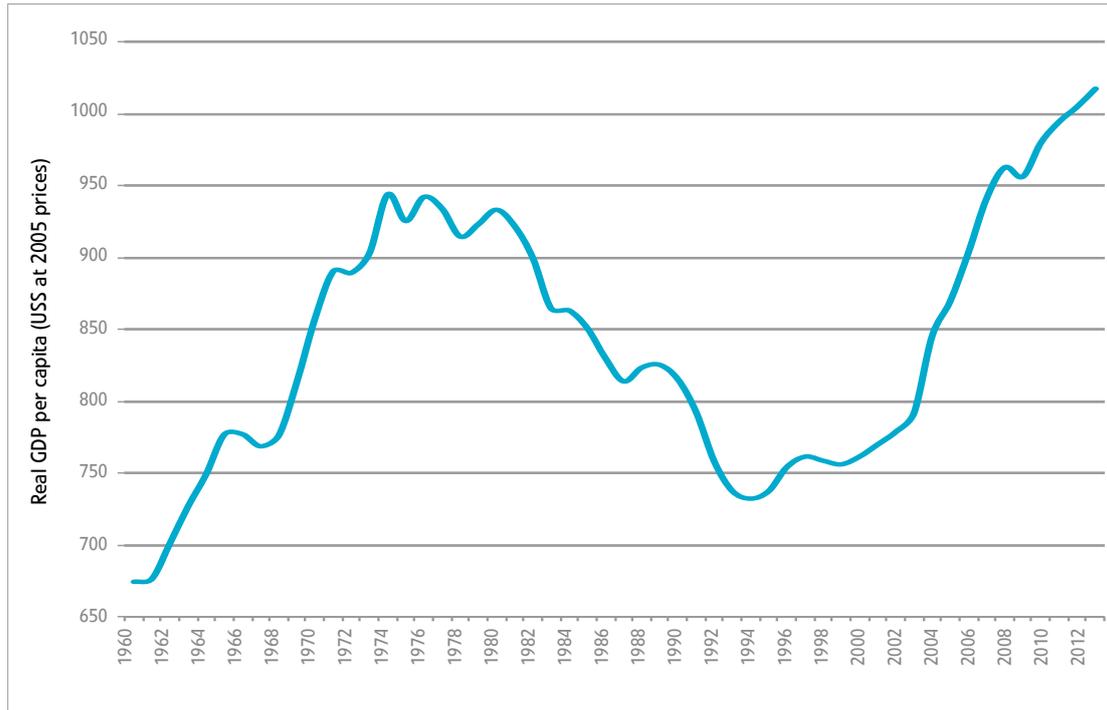
Source: World Bank, 2014

Figure 2 depicts the levels of real GDP per capita in Sub-Saharan Africa in 1960-2013. As evident, the two “lost decades” from mid-1970s to mid-1990s were finally reversed in the mid-2000s. While this was the case on average, there are still many - often conflict-affected - countries whose people are poorer today than in 1960.

A recent study by the World Bank (2014c) shows that Africa has so far largely bypassed industrialization as a major driver of growth and jobs. Growth in agriculture and services has been more poverty reducing than growth in industry. In the rest of the world, by contrast, industry and services have had a larger impact on reducing poverty. Move-

ment from rural areas to Africa’s growing cities is generating substantial domestic demand and has the potential to help spread the benefits of growth to more people. But as Dani Rodrik (2014, 2015) points out, such “premature deindustrialization” may moderate future economic growth in Africa and lead to continued informality and lower productivity.¹⁰

Figure 2. Two lost decades have been reversed



Source: The World Bank, 2015

Growth has also played a key role in the reduction of poverty in Africa. In 2000 Ethiopia, for example, had one of the highest poverty rates in the world with 56 percent; a decade later poverty had fallen to less than 30 percent.¹¹ In Tanzania the basic needs poverty rate has declined from 34 percent to 28 percent between 2007 and 2012, the first significant decline in the last 20 years. While this represents a dramatic turnaround from the stagnation that marked the 1975-95 period, much more remains to be done. The MDG of halving the proportion of people who are living on less than \$1.25 a day has been met globally, but Sub-Saharan Africa has reached only 35 percent of that goal.

Inclusiveness remains another challenge, i.e., consumption at the top of the distribution tends to increase much faster than at the bottom. In highly unequal countries - in Namibia, for example - the opposite is required to begin to reverse the past inequalities. Social

¹⁰ Consistent with Rodrik’s arguments, there is little evidence on gains from global value chains through technology transfer and spillovers for LICs (Kummeritz 2014). Hence, here the global trade negotiations may be more important than aid.

¹¹ World Bank 2014b

protection programs - inspired by conditional cash transfer schemes of Latin America - are now spreading across Africa, to directly address extreme poverty at the bottom.

On specific MDGs, there has been much progress in health, education and clean water in Sub-Saharan Africa. First, in the past two decades, Africa has put most of its children to school. For example, in Ethiopia only a quarter of children attended primary school 20 years ago. Today the share is 92 percent. Its education program is massive: 25 million school children, 400,000 teachers and 32,000 primary schools. While donor support has played a substantial role in this positive trend, the Ethiopian Government covers 82 percent of the cost of education. The same pattern has been repeated across the continent, including in other Finnish partner countries. In fact, Africa's recent performance in getting children to school is the all-time second best, after South Korea, and faster than Finland recorded at its period of most rapid education expansion. As highlighted by the SDG process, the new challenge is the quality of education.¹²

For its part, Finnish aid has actively supported these achievements. This support has not only been financial - Finland's own experience and high-quality education system today have been both an inspiration and a useful reference.

Second, infant and child mortalities have fallen dramatically over the past decade. In Tanzania, for example, the under-five mortality rate has dropped from 155 deaths per 1,000 live births in 1995 (Finland had this rate in the early-1920s) to 76 in 2010 (Finland had this rate in the late-1940). Indeed, Tanzania's rate of decline in child mortality is faster than Finland's was when it significantly reduced its child mortality rates. The same positive trend can be observed in a dozen of other African countries where recent demographic and health surveys have become available; aid has contributed to these impressive results.

Third, progress has also been made towards the MDG target of halving the share of the population without access to improved water sources by 2015. Globally the water MDG has been achieved. While Sub-Saharan Africa is lagging the most - 36 percent of its population do not have access to clean water - there has been much progress, too. Among the Finnish partner countries Ethiopia - and Nepal and Vietnam in Asia - have so far reached the MDG target in clean water and some others are likely to do so soon (e.g., Tanzania).

Finally, an important "mega-trend" in Sub-Saharan Africa is its fast population growth. The entire continent's population is expected to double from 1 to 2 billion people in the next 35 years or so. This major factor needs to be taken into account also in Finnish aid. Fertility and youth dependency rates remain among the highest in the world, which exposes Africa to higher poverty rates, smaller investments in children, lower labor productivity, and even the risk of political instability. But demography need not mean disas-

¹² Service Delivery Indicators (SDI) measure key aspects of the quality of education and health care in Africa. <http://www.sdindicators.org/>

ter. If the focus shifts from population numbers to population age structures, the prospects for Africa can be positive. Declines in fertility raise income per capita in the short run and have the potential for a “demographic dividend” in long run. Some developing regions, such as the Middle East and North Africa, were not able to harness the demographic dividend as many new entrants to the labor market could not find jobs; East Asia, harnessed it very effectively. Clearly, it is the latter example that Sub-Saharan Africa should emulate.

2.2 Aid – a curse or a phenomenal investment?

Global ODA reached an all-time high of US\$134.8 billion in 2013.¹³ While considered by many to be “a drop in the bucket” when compared to other international financial flows, the reliance on ODA varies across developing countries. Aid is around 1 percent of the total national income of all developing countries, but for the least developed countries (LDCs) ODA can represent over 70 percent of available external finance and more than one-third of total public expenditure. In these countries effective aid has the potential to make a big difference.

Critics often assert that aid is simply captured by local elites and hence wasted in terms of fighting poverty. Matti Kääriäinen’s recent book on ‘aid curse’ contains arguments along those lines as well as stories which, if true, would suggest a long-lasting ineptness on the part of the MFA to deliver aid projects let alone results.¹⁴ Contrast this with Bill and Melinda Gates who write that “Foreign aid is... a phenomenal investment. Foreign aid doesn’t just save lives; it also lays the groundwork for lasting, long-term economic progress.”¹⁵ Who is right here?

In a recent paper on foreign aid Martin Ravallion demonstrates that, while the idea of ‘aid curse’ is theoretically possible - i.e., aid makes the poor worse off - its empirical relevance as a general model is questionable. A perfect alignment of interests between the donor and recipient governments is not necessary for aid to help reduce poverty. There are social preferences in recipient countries that favor the non-poor over the poor but still imply that poor people will benefit from aid targeted to them. Thus, merely identifying leaders who do not seem to care for poor people does not establish an ‘aid curse.’

At the macro level, a vast amount of research has been produced over the decades on whether aid enhances economic growth - even if much of the aid is used for other purposes than directly boosting economic growth, i.e., social protection, health and educa-

¹³ OECD DAC

¹⁴ “Aid curse” draws an analogy with the resource curse, whereby natural resource discoveries can undermine other sectors in the economy.

¹⁵ Quoted in Ravallion, 2014

¹⁶ Roodman, 2007, provides an excellent review of method-related issues in this literature.

tion. Effectiveness in the latter depends crucially on better delivery of public services – and on institutions more broadly. While cross-country regressions have their inherent method-related problems in terms of being able to provide clear answers,¹⁶ rather than an “aid curse,” the recent macro evidence is more consistent with the claim that aid is good for economic growth over the longer term.¹⁷

When analysis focuses on the subset of African countries that have undertaken major economic reforms there has been an impressive record of reversing of historical trends of low or negative growth, for example, Ghana, Tanzania, Uganda, Ethiopia, Mozambique and Burkina Faso. Three of them are partner countries in Finnish aid. Interestingly, these are not countries where performance was closely linked to exploiting natural resources. Aid has often been helpful in getting around the political-economy constraints to economic reforms that can be painful in the short term but yield bigger benefits over time. In the countries that benefitted from highly indebted poor countries (HIPC) debt relief there was a consistent pattern of allocating the freed up resources to education and health care. Analytic work on public expenditures across LICs has resulted in better expenditure patterns, helping ensure that non-productive activities did not consume incremental expenditures.

At the micro level, based on evaluations, many individual projects and programs have consistently shown positive results. Hence, both macro and micro level research evidence seem to point to the same direction, and the so-called micro-macro paradox seems to be less of an issue today than it was in the past.¹⁸

To summarize, research does not support the aid curse hypothesis. On the contrary, there is a vast empirical literature that, on balance, shows positive effects of aid on growth, poverty reduction and other key variables. At the same time there is no question that aid could do even better than it has done to date.



THERE IS A VAST EMPIRICAL LITERATURE THAT, ON BALANCE, SHOWS POSITIVE EFFECTS OF AID ON GROWTH, POVERTY REDUCTION AND OTHER KEY VARIABLES.

¹⁷ Ravallion, 2014

¹⁸ Mosley, 1986.

3. How does Finnish aid rank globally?

There are two approaches to assessment of aid quality, one qualitative and the other quantitative. A typical example of the qualitative approach is the OECD DAC peer review, which monitors every four years each member country's development cooperation. The peers are representatives of other OECD DAC member countries. The most recent DAC peer review of Finnish aid was in 2012; its key findings are referred to throughout this report. MFA pays close attention to these peer reviews and makes an effort to implement their recommendations.

While in-depth and useful, DAC peer reviews do not lend themselves for donor country comparisons. The Center for Global Development and Brookings Institution, two US think tanks that have done a considerable amount of work on aid effectiveness, provide a regular quantitative measurement of the quality of ODA - in brief QuODA.¹⁹ This independent assessment benchmarks 31 DAC member countries and multilateral aid agencies across 30 indicators grouped into four dimensions that reflect international best practices on aid effectiveness.²⁰ The four dimensions measured in are: maximizing efficiency, fostering institutions, reducing the burden on recipients, and transparency and learning. Each of these is an important dimension of the quality of aid. Indicators are carefully developed based on OECD DAC reports and academic research.²¹

In the most recent edition from 2014 (but using 2012 data) - of the 31 donor countries and multilateral agencies included - Finland ranks highest on fostering institution (7th) and transparency and learning (13th). On maximizing efficiency and reducing the burden on recipients, however, Finland's rank is slightly below average (17th). The benchmarking reveals the following strengths and weaknesses in Finnish aid:

Fostering institutions. There is a saying that if you want to do something fast, do it yourself. But if you want to go far, nurturing institutions and partnerships is key. Specifically, when aid passes through recipient country institutions it is more likely to be "owned"

19 The Global Partnership for Effective Development Cooperation, established as part of the international aid effectiveness meeting in Busan, also follows commitments made by the participants using quantitative indices. Their findings are available at <http://effectivecooperation.org/progress/>

20 Birdsall and Kharas, 2010 and 2014.

21 In each of the four categories there are either seven or eight indicators (a total of 30) that are aggregated to form a composite score. The data come largely from the OECD DAC's creditor reporting system, DAC online datasets, and partner countries. Other data sources include a project-level database called AidData, surveys to monitor the Paris Declaration, World Values surveys, Latino-, Euro-, Asian, and Afrobarometers, UN national accounts, and the International Monetary Fund.

by the recipient. Aid can also lead to stronger domestic institutions that in turn affect the quality of all public spending, including domestic resources. As mentioned above, Finnish aid does well (7th) - relative to other donor countries and multilateral agencies - on building the institutional strength of recipient countries by using country systems. Finnish aid is relatively predictable and not over reliant on separate project implementation units. It also scores well on helping partner countries develop good operational strategies.

Transparency and learning are key building blocks for mutual accountability. More transparency in donor operations permits civil society organizations and others to comment on agency performance. Research shows that developing countries face major challenges in accessing aid data and that there are often significant differences in data available in the recipient country and data available in the cross-country datasets maintained by the OECD DAC. Of course, transparency is also a principal ingredient of donor harmonization; donors cannot work together if they do not share what they are doing. Recipients benefit the most from aid when they know what their donor partners are doing. Finland's ranking is above average on this dimension (13th); Finland consistently shares information on its projects and disbursements and supports partners to build good M&E frameworks.

Maximizing efficiency is a shorthand way of emphasizing the link between development assistance and poverty-reducing growth. While donors have several different objectives when providing aid, this measure of quality does not try to assess each donor's aid against that donor's stated objective, but against a global standard of how best to achieve sustainable growth and poverty reduction. In essence, this dimension tries to measure the likely "development bang for the buck" of each donor at the global level. What brings Finnish aid below average (17th) on this dimension - relative to other donor countries and multilateral agencies - are high administrative costs, low country programmable aid share, and a large number of recipient countries. Specialization by sector receives higher marks, however.

Reducing the burden on recipients. High administrative burdens associated with aid proliferation have adverse impacts on development. The time required of recipients to manage aid projects, participate in hundreds of meetings with donor officials, and complete countless reports competes with the time required for their other duties. Donor proliferation has been associated with excessive investments in small, visible aid projects rather than support for countries' own programs critical for long-term development. Finland's ranking (17th) has fallen considerably on this dimension since 2010 when it placed 5th. In discussing the much lower ranking in 2014 with the authors of QuODA they underlined that the lower ranking reflects the improved performance of other donors, not necessarily much of a change in Finnish aid. This underlines the need to stay on top of performance and closely monitor developments in each area. Finland (and IFAD) were listed on the top in terms of the proliferation of small amounts of aid across a large number of partners.

To summarize, according to an independent quantitative ranking of donor countries and multilateral aid agencies, Finnish aid is in the top ten on fostering institutions and is above average on another dimensions of aid quality - transparency and learning - while slightly below average on two other dimensions - maximizing efficiency and reducing the burden on recipients. Overall, Finnish aid is in the mid-range in aid quality compared to other donors. While a solid performer, for a country that has become used to the top rankings in many global assessments this does not seem quite good enough. Next let us take a closer look at Finnish aid to explore its effectiveness and results on the ground.

BOX 1. IRISH AID AT THE TOP

Ireland, another small donor, ranks on the top of QuODA. In 2010 Ireland was the only bilateral donor that scored in the top 10 on all four dimensions of aid quality. In 2014 it had improved even further. Most donors have their strengths and weaknesses in different dimensions of aid quality. Out of the 31 donors and agencies assessed, 22 have a top ten ranking in at least one quality dimension. Twenty-two also have a ranking in the bottom ten in at least one quality dimension. Ireland stands out, ranking first in fostering institutions and fourth or better in the other three dimensions. When looking at details it scores well on most of the 30 different indicators underlying the four aid quality dimensions.

More broadly, Ireland's aid program has cross-party support in Parliament, and therefore has not been subject to thematic shifts with changes of government. Irish Aid works closely with parliamentarians, including on visits to partner countries. It emphasizes public communications, focusing on programs in partner countries, and on results. It works closely with the media and has instituted a number of schemes to promote quality reporting of development issues. The focus on hunger and nutrition and on the voice of communities on the ground resonates with Irish historical experience, and is highlighted by major figures in the country. Building on the achievements of the earlier missionary tradition – which raised awareness of needs in Africa even when Ireland faced poverty at home – and volunteerism, there is a very strong NGO sector in Ireland, which engages politically and across society and the media. The country's new aid strategy "One World, One Future" was followed by a framework for action, definition of key results and reorganization of the Ministry's aid division according to the priorities.

However, there are challenges in Irish aid, too. Interviews confirmed that it faces similar issues to Finland in ensuring data and evidence and the right staffing levels and skills. And, while public support is strong, there is concern about corruption and its impact on the effectiveness of aid.

During the field visits an often-heard comment was "The Irish people are proud of their aid program." It raises the question: What would it take for the Finns to be proud of their aid program?

Source: Birdsall and Kharas 2010, 2014; interviews during field visits to Ethiopia and Vietnam

4. Results-orientation in Finnish development policy

Results-orientation starts with the strategy. This section briefly reviews Finland's development policy programs (DPPs), a sample of sector policies - water and forestry - and key cross-cutting themes from the results perspective.

4.1 Development policy programs

The tradition of incoming Governments to present a development policy program (DPP) is long-standing. It provides an opportunity to set out general policy guidance for Finnish aid and to elaborate the key issues that Government would like the aid program to focus on. The 2012 DPP also included extensive consultations which were appreciated by stakeholders.

DPPs have reformulated the Finnish development policy for each government cycle from the scratch. As pointed out by an MFA evaluation,²² this seems excessive as overall goals and principles, as well as sectors, channels and instruments have remained remarkably stable over time. This stability is not apparent in the DPPs; they differ quite substantially in their overarching themes - policy coherence in 2004, sustainable development in 2007 and human rights in 2012 - under which downstream guidance is then developed. The thematic disconnect is likely to reflect a situation where the DPP, by and large, is left for the Minister of International Development to handle. The more engaged the Ministers - who have come from a different party in consecutive governments - the bigger the thematic disconnect between the DPPs. One also gets an impression that the Ministers may not have had full trust in MFA staff who in turn did not "speak truth to power" and hence missed an opportunity to contribute their experience and learning.

The second disconnect has to do with typical implementation timescales in development. The present process has largely ignored the fact that for most of its tenure, a new government implements an aid program designed by past governments. Indeed, even many new commitments will be related to past decisions inasmuch as country programs cover four-year periods and many programs and projects contained in them will be deliv-

²² MFA 2015a

ered well after the new DPP has been issued. Currently, DPPs determine a substantial share of the next government's activities, the results of which will only be reported by the government(s) after that. This can also lead MFA staff and partners to window-dress projects and programs started in previous government cycles into a language more fitting with present policies.

A simple way to address these two disconnects would be for Parliament to discuss and endorse long-term goals and principles of Finnish development policy, as recommended by the above-mentioned evaluation and subsequently by the Development Policy Committee. Half of the DAC member countries have passed a law to that effect, while in others Parliaments have approved a policy without a law. The incoming Government could then issue a brief note on transitional issues - specifically outlining where it introduces new initiatives, where it supports past policies and, where it wishes to wind things down.

What about results-orientation in DPPs? It is indeed a stated priority but among too many others. As highlighted by the MFA evaluation and the 2012 DAC peer review, DPPs lack prioritization and successive policies added new objectives but did not remove any earlier ones. Furthermore, DPPs do not commit to well-defined targets that can be monitored. Downstream policy guidelines also have weak target-setting, although some exceptions exist (for example, aid-for-trade).

More generally, the absence of indicators, targets and data characterizes most Finnish aid documents, including evaluations and reports to Parliament. This absence misses an opportunity to more credibly discuss the successes and the challenges of ongoing programs. This in turn contributes to the sense that little real change is happening under the aid program; and importantly an opportunity is lost to lay out clearly some of the accomplishments of individual country programs. It also leaves Parliament and the society at large without an adequate understanding of whether originally intended objectives have been met, and whether Finnish aid represents a good social investment. This view was strongly reinforced during the field visits to Ethiopia and Vietnam (see section 8).

There are positive developments as well. During the last couple of years, results-oriented reporting has taken important steps forward through the introduction of reports against country strategies for long-term partner countries and "influencing plans" for multilateral agencies. Irish Aid provided peer learning when the MFA developed its country strategy approach. But to become a truly results-oriented organization, more work is required. First, the MFA's culture needs to change so that the result information is consistently reflected in decision-making; leadership must show the way here. Second, MFA's information systems are not adequate for monitoring and reporting results; much of the information gathered by individual units or projects is neither transmitted nor used upwards or outwards. Third, policy formulation and budgeting processes at the MFA should come together as, to be able to commit to results, one needs to know what resources will be available.

4.2 Examples of sector policies

Water has been the calling card of Finnish aid for decades. In places like Mtwara and Lindi in Tanzania and Kakamega in Western Kenya, Finnish water engineers have learned the hard way how to engage with communities; today they master it better than most. This was clear in Ethiopia where Finnish resources focus on capacity building and leave the infrastructure funding to Government. Most activities supported by Finnish aid take place in rural areas; water supply (and sanitation) services for the poorest. Vietnam is an example of reform of and investment in urban water utility. This has also worked out well, with Hai Phong's water utility rated as one of the best in East Asia. Long-term engagement has paid off and continues to deliver results on the ground (see section 8). Finns can be proud of their water programs.

The international strategy for Finland's water sector of 2009 has a different perspective from a standard aid strategy; namely, it brings together various actors in the water sector to strategize the sector's international engagement, including aid. The strategy has an integrated approach to water resource management, development of water institutions, climate change and security issues relating to water. A lot of emphasis is placed on the broad-based participation in the development cooperation by the Finnish water sector stakeholders (government, private sector, research community, NGOs). The strategy also set a number of long- and short term targets which, however, were formulated in fairly generic manner.

Another sector of focus is forestry. The development policy guidelines for forestry take more of a developing country perspective and in that context discuss what Finland has to offer. This policy paper is comprehensive; virtually every trending topic in the sector is covered: biodiversity conservation, sustainable forest management, land tenure security, and forest governance. Climate change and Finland's support for REDD+ initiatives²³ are articulated as major driving themes, and all this is set in the context of the "human rights based approach." Multiple implementation modalities are highlighted - bilateral projects, multilateral and UN collaboration, NGO initiatives, research efforts, and so forth. Yet, the sector policy offers little in terms of results-based management or indicators of how progress could be measured. Where specific indicators are cited - for example, the Program on Forests' (PROFOR) forest governance indicators in Kenya - the assessment seems to be a one-off exercise, and does not evaluate change over time. Like the DPP, the sector policy paper isn't especially clear about priorities, nor does it set targets.

As in the water sector, activities on the ground in forestry came across more focused; key countries are Kenya, Laos, Nepal, Tanzania and Vietnam. According to interviews, forestry projects struggle to document results - even if the forests information systems that Finland often helps build are about evidence-based management.

²³ Reducing emissions from deforestation and forest degradation (REDD)

Multilaterally, Finland has a large footprint in international forestry. Interviews confirm that Finland is a valued and trusted partner in a range of international forestry initiatives. These include work on forest governance with the European Forestry Institute, forest financing through the UN Forum on Forests, and research supported through the CGIAR²⁴ and through multi-donor initiatives such as PROFOR. These represent a key set of engagements in international forestry. Each implementing organization is evaluated for effectiveness based on the overall package of support from multiple donors.

4.3 Cross-cutting themes

Finland has prioritized gender equality and the environment in its development co-operation for a long time. The 2012 DPP identifies gender, inequality and climate sustainability as cross-cutting themes; it states that these objectives are supported through mainstreaming, targeted actions and political advocacy in bilateral, multilateral and EU cooperation. According to the 2012 DAC review, there has been progress between 2007 and 2010 on gender and environment. The gender focus increased from 27 to 54 percent of projects and programs, while the environmental focus increased from 35 to 46 percent. Although similar figures are not available on inequality, country choices, sector focus and CSO work (e.g., support to the disabled) all demonstrate attention to it.

The gender strategy and action plan of 2003-2007 provided a relatively strong results framework, including concrete targets and a timeframe for implementation; however, it has not been updated. While DAC peer review highlighted progress in projects and programs, the recent MFA evaluation noted that the integration of gender in the focus country strategies varies from vague statements to having specific support and objectives in the logical framework.²⁵ Multilateral influencing plans mention gender either as a thematic priority, or as a priority related to the organization's modus operandi.²⁶ Gender-related targets are set but often depend on actions beyond Finland's direct influence. UNWomen provides an example where an attempt has been made to maximize influence by becoming its largest individual donor (see its effectiveness assessment in section 9).

Another multi-sector theme noted in the 2012 DPP is the WTO and EU sponsored aid-for-trade initiative. It aims to increase the volume and value of developing country exports, promote their integration in the multilateral trading system and to enable them to benefit from increased market access. Finland is an active partner in this initiative. The current action plan, following an evaluation in 2011, represents a good attempt at a results-based thematic cooperation (Box 2)²⁷.

²⁴ Consultative Group on Internal Agricultural Research, especially Center for International Forestry Research (CIFOR) and the World Agro-Forestry Center (ICRAF)

²⁵ MFA 2015a

²⁶ See also Aarva et al. 2012

²⁷ MFA 2015a; Bird et al. 2011

BOX 2. AID FOR TRADE – RESULTS

The aid-for-trade action plan has one objective, four goals and eight sub goals (called focus themes) both with related indicators. The plan attempts to link, directly and indirectly, program- and project-specific indicators with higher level sub-goal and goal indicators, all of which together contribute to the main objective of the private sector creating decent employment and opportunities for entrepreneurship for all. All aid-for trade related projects are to have two to three results indicators. As the projects are not necessarily planned within the aid-for-trade results framework, monitoring data can be limited. Nonetheless, the plan is an important step forward in introducing the results-based approach to thematic cooperation.

In 2014, the aid-for-trade program produced the following results:

- 36,500 new jobs were created – of which 43 percent for women;
- Indirect job creation was about 25,000;
- More than 16,000 young people received vocational training; and
- More than 50,000 households gained access to clean energy services in Southern and Eastern Africa.

Source: MFA 2015a, 2012c, MFA interviews

5. Government-to-government bilateral aid

Government-to-government bilateral aid²⁸ is what many refer to as “traditional aid” where ODA grants are invested in public services in the recipient country. Finland has had long term focus countries for the past fifty years of development cooperation. Some countries have already been phased out from grant aid, such as Egypt, Namibia, Nicaragua, Peru and Sri Lanka, while Vietnam will be phased out in 2018. Many countries in Africa have stayed on. However, as noted in the DAC peer review, the share of the seven focus countries in Finnish aid today is small, less than 12 percent of total ODA. One could argue, as suggested by the DAC review, that this is too small a share, given the effort and demonstrated results (more in section 8).



THE SHARE OF THE SEVEN FOCUS COUNTRIES IN FINNISH AID TODAY IS SMALL, LESS THAN 12 PERCENT OF TOTAL ODA.

This section examines partner country strategies and programs and what evaluations say about their results on the ground. It also looks at the role of fragile states in Finnish aid, and briefly discusses bilateral aid instruments.

5.1 Partner country strategies

The practice of (rolling) four-year country strategies for the seven partner countries - Ethiopia, Kenya, Mozambique, Nepal, Tanzania, Vietnam and Zambia - is now well established. These documents are easily accessible on the MFA website. Recent country strategies reveal a number of strengths. First, the focus of MFA on “human rights based approach” is discussed in all strategies, and there is an appropriate discussion of how the proposed program addresses the three cross-cutting themes of the 2012 DPP. Second, considerable time is spent on recipient country priorities; the key documents produced by the recipient country are well summarized. Building on recipients’ priorities is critical for aid effectiveness. Third, there are robust discussions of ongoing work on aid coordination in each country. Key efforts the Finnish program has made and proposes to make to strengthening the aid effectiveness agenda are highlighted. Finally, proposed country programs are clearly set out as well as the resources expected to be provided to each area of engagement. Subsequent reporting on

²⁸ According to the OECD DAC definition, in 2013 Finnish bilateral aid was 41 percent, so-called multi-bi assistance - which is channeled through multilateral agencies to specific projects - 16 percent, and multilateral aid was 43 percent of the total ODA eligible expenditures.

progress is annual; MFA management systematically reviews the annual reports with the country teams and embassy staff and provides feedback and guidance - this is a highly commendable practice.

This review also raised four concerns on the strategies. Perhaps most important is that they come across as rather dry presentations of the country programs. There is little effort to describe success stories or to highlight key challenges that are being encountered in implementation. One suggestion would be to require text boxes on the most successful programs being pursued and on any sector where problems are being encountered. As these are public documents and are available to all stakeholders, this would make for more interesting reading and perhaps generate broader public interest in aid.

Second, there is little data presented on ongoing programs, even in the monitoring discussion - a perennial problem in Finnish aid. While the Nepal program does include some numbers on the (very positive) impact of the water program, this is not consistently followed across other programs. The monitoring sections are largely qualitative. A more critical and regular review of impact data would make the discussion of ongoing programs more interesting and useful.

Third, there are some sections that appear to be largely “boiler plate” which don’t make a real contribution to the country strategy discussion. Perhaps the most consistent example of this is the discussion of “internal management arrangements.” If this discussion is largely identical across counties, there is no real value in its repetition.

Finally, it would be helpful if each strategy had a brief discussion on how the proposed program addresses the issues raised in the various reviews of Finnish aid. This would both ensure greater awareness of these reviews and make important contributions to addressing the concerns raised.

BOX 3. REGIONAL COOPERATION

Finnish aid also finances a number of regional programs. For example, in forestry they include Central America, Andes, East and West Africa, and the Mekong. In the regional and thematic co-operation in the Mekong region (Cambodia, Laos, Thailand and Vietnam), for instance, there is an emphasis on natural resources and the environment. An attempt is made to consider the region comprehensively from the point of view of sustainable development, security and trade.

Source: MFA 2013

5.2 Country program evaluations

According to the MFA work plan all focus country programs will be evaluated in the coming year. The first of these evaluations, Kenya, has already become available.²⁹ What does it tell us of recent results in Kenya, a country that has benefitted from Finnish support since the 1960s? Four key themes emerge from the evaluation:

- The main areas of cooperation - governance, poverty reduction through agriculture, forestry, and water - are considered high priority. The evaluation notes though that governance is a long-term issue where patience will be required.
- Changes in policy emerging from successive DPPs created substantial challenges for the Kenya program. Translating broad policy prescriptions such as the “human rights based approach” into operational work was not easy. The introduction of the new Kenyan Constitution in 2010 and devolution of powers to counties added to the complexity.
- On the cross cutting themes Finland has been a leader in the donor community on gender in Kenya, but climate change has featured little;
- The Finnish private sector could contribute much more in Kenya. Here the evaluation is fully consistent with the observations during the field visits to Ethiopia and Vietnam for this report.

The annex to the evaluation report provides a qualitative examination of the impact of all major projects and programs. A greater focus on their strengths and weaknesses in the main report would be useful, including the recommendations the evaluation makes on strengthening their management. The latter could both address the past problem of slow disbursements and make important contributions to the ongoing Kenyan devolution. The evaluation also suggests an interesting new knowledge intervention: the development of an atlas of county-level natural resources.

Overall, and given the modest size of its Kenya program, Finland had “played above its weight” in many areas which is again fully consistent with the findings of the field visits to Ethiopia and Vietnam. Especially, Finland’s willingness to adjust its program to help address the political crisis after the 2007 elections is commended. The evaluation also notes Finland’s active participation in aid coordination in Kenya.

The previous series of country evaluations included Nepal, Nicaragua and Tanzania in 2012. Again, there is not much about results on the ground - in terms of reporting outputs and outcomes - in these evaluations. This must be largely because their terms of reference focus on the broad themes of how DPPs were translated into practice, how coopera-

²⁹ MFA 2015b

tion contributed to aid effectiveness in the Paris Declaration context, and so forth. Nicaragua represents an interesting case as a change in government and in policy direction disrupted the Finnish aid program and eventually led to its discontinuation. In Tanzania Finland's long-standing relationship with the Government is noted; Finland has made a major contribution to aid coordination and policy dialogue by chairing the budget support group. However, the changing DPPs led to a fragmentation problem in the Tanzania program which is currently being addressed.

5.3 Fragile states

Fragile states have become a priority in international development.³⁰ These are countries that face particularly bleak futures in the absence of major changes in policies and performance. For example, in post-conflict Guinea, Liberia, and Sierra Leone the extremely weak public health systems were not able to stop the spread of Ebola. This has taken a heavy human toll, disrupted trade, and shaved several percentage points off growth. The crisis also demonstrated the effect such a situation can have on the rest of the world. Afghanistan, Somalia, Libya and Syria demonstrate the effects of conflict on global security, human trafficking, and/or illegal migration. This is perhaps one of the most concrete links between aid and national security. Most fragile countries remain heavily reliant upon foreign aid to finance critical government spending.

Moreover, the more successful low-income and lower middle income countries, including in Africa, are now gaining access to global capital markets and so aid is becoming less important. In contrast, fragile states, by the nature of their condition, have small tax bases and face risks which deter private capital; for them aid remains important. As Paul Collier (2014) has pointed out, fragile states seldom develop autonomously because they lack the preconditions for integration into the global economy; their economies are small and isolated and this inhibits the diversification of private economic activity. The governments of fragile states generally lack the resources to break out of this trap. Hence, for the economy to develop, donors need strategies which address this distinctive constraint. They must help the country to break out of isolation but this break-out itself requires private investment that may not be forthcoming without donor action, such as support to infrastructure, political risks insurance, business partnerships, or subsidies to pioneer private investment in a fragile state. For example, donor organizations such as Finnfund (section 7) or various social enterprises can respond effectively to these situations.

The OECD, the World Bank's 2011 World Development Report and the International Dialogue on Peacebuilding and Statebuilding (IDPS) – co-chaired by the former Finnish Minister of International Development Pekka Haavisto – have helped shape a more proactive

³⁰ There are many definitions for fragile states. Collier's book "Bottom Billion" (2007) is an early contribution.

international response. Along the lines of the “new deal” for engagement presented by IDPS and g7+ group of fragile states, MFA has issued policy guidelines for Finnish aid in fragile states. Currently Finland supports Afghanistan, Myanmar, Palestinian Territories, Somalia, South Sudan, and Syria.

Finnish support for peace and development in fragile states was evaluated in 2014, including case studies of Western Balkans, Afghanistan, Ethiopia, Palestinian Territories and Nepal.³¹ Finland was found to be strong on coordination and predictability of funding, with an appropriate mix of multilateral pooled funding, and the pursuit of advocacy around key issues such as gender and human rights. However, the evaluation concluded that this had not been backed by clear country strategies with measurable indicators which had sometimes resulted in an overambitious and fragmented portfolio. In Ethiopia, according to the evaluation, impact had been achieved through long-term involvement in specific sectors, but elsewhere greater investment in economic programs and capacity development of civil society institutions was encouraged. Too few staff and their fast rotation were seen as problems.

Currently, several strategies for fragile state partners are being prepared in response to the evaluation. These include Myanmar where the brand new country strategy extends over a decade, and Palestinian Territories. In Afghanistan the approach is comprehensive including security.

From the results-perspective, cost-efficiency should be an important consideration. Anecdotal evidence indicates that having an embassy in Kabul, Afghanistan, costs about ten times more than running an embassy in an “ordinary” partner country. Hence, for a relatively small donor, focusing its bilateral aid on a limited number of fragile states, at any given time, seems sensible. As observed during the field visit to South Sudan, where Finland does not have in-country representation, the willingness to allocate its funding to an existing German-led program in water is best practice in coordination and a cost-conscious solution; it also demonstrates that Finland walks the talk regarding the “new deal.”

5.4 Instruments in bilateral aid

In bilateral aid “the project” has been the work horse for decades, with the well-known “project cycle.” These stand-alone interventions have tended to focus on inputs and activities. Project guidelines in Finnish aid follow a logical framework approach. Despite the guidelines, according to an evaluation, only half of all projects achieve good standards of results-oriented design.³² Hence, much remains to be done to transform the old work horse into results-orientation.

³¹ Bennett and Fleming 2014

³² Poate et al. 2011

Sector-wide approaches represent an effort to reduce transaction costs that often accompany projects - Tanzania, for example, had thousands of aid projects at one time - and prioritize and consolidate actions in sector development. It seems that pooling of funds more naturally brings a stronger focus on results. As evident from evaluation reports and the field visits, Finland has been an active participant in sector programs, often chairing sector working groups in the country, even if it may have maintained project aid rather than pooled funding. Recent innovations in sector support include result-based instruments, for example, the program-for-results of the World Bank. Finnish aid could also consider piloting such an approach.

Budget support as a mode of aid grew from the early-2000s in the context of poverty reduction strategy papers, PRSP, and a partnership approach to aid. Attitudes towards budget support in Finnish aid have varied over time. The 2007 DPP, for example, stated that Finland continues using budget support where feasible but emphasized project cooperation, setting the stage for the proliferation of projects in some partner countries, e.g., in Tanzania. In 2014 the MFA issued a thoughtful set of guidelines for budget support.

Finland participated in a large multi-donor evaluation of budget support that covered seven African countries: Mali, Morocco, South Africa, Tunisia, Mozambique, Tanzania, and Zambia. Finland has provided budget support to the last three. According to the synthesis report commissioned by EuropeAid, budget support achieved significant results within diverse and often challenging contexts. In the LICs, the increased flow of funds resulting from budget support has been the principal contribution, supporting a considerable improvement in the coverage of services - particularly in education and health. There have also been improvements in macroeconomic performance, a significant strengthening of public financial management and some gains in transparency and oversight, as well as in the legal and institutional framework for fighting corruption. Tangible outcomes had been achieved in all cases and there were indications of positive impacts on economic growth and on non-income poverty. Transaction costs were found to be lower - per unit of aid disbursed - than for projects and common basket funds.

Moreover, the evaluation found that none of the negative side effects commonly assumed to be associated with budget support were present. Specifically:

- Domestic revenue generation was maintained throughout the period.
- In the LICs, where budget support represented a high percentage of public expenditure, these additional resources were used predominantly to raise spending within the priority sectors, notably in education, health and roads.
- Transparency and accountability systems improved during the evaluation period.

BOX 4. THE INSTITUTIONAL COOPERATION INSTRUMENT

The institutional cooperation instrument (by the Finnish acronym, IKI) was part of a broader evaluation of complementarity in Finnish development policy and co-operation. The IKI was found to have strengthened capacities in developing countries by making the considerable technical knowledge and expertise that exists in public institutions in Finland available to government agencies in partner countries. The instrument represents a relatively small investment and is, in principle, well-targeted by building specific technical expertise in partner organizations through short-term project-type interventions. The drawbacks of the IKI instrument have been that it has acted too much in isolation, and that interventions were spread too thinly over too many countries. Opportunities for cooperation with other instruments, and also within the context of partner countries, were not sufficiently used. The instrument has, therefore, so far failed to reach its full potential. The evaluation offered useful recommendations to help overcome the drawbacks.

Source: Bäck et al., 2014

6. Civil society organizations

The civil society organizations (CSOs) – composed of NGOs, faith-based groups, trade unions, community groups, and foundations, among others – have emerged as a major force in international development. There has been a dramatic expansion in the number,³³ role, and visibility of CSOs which has come in the wake of recent democratic governance movements worldwide. Their dynamism is also exemplified by successful advocacy campaigns on poverty reduction and the environment. They played a particularly important role in the HIPC debt relief and in encouraging increased funding for education and health. CSOs have also become significant actors in ODA, with the DAC estimating that in 2011, US\$19.3 billion was channeled through them.

Like its international counterparts, Finnish civil society has been active in development advocacy and cooperation for decades. Reflecting priorities in Finnish aid, CSOs channel an increasing share of Finnish ODA (9 percent of total ODA disbursements in 2014) to civil society capacity building, advocacy as well as poverty reduction and public services in developing countries. An example that comes across prominently is work for the disabled; many organizations seem to do remarkable work in this area. The field visits allowed observation of some of the CSO operations on the ground. The Finnish Evangelical Lutheran Mission's long-term work on the education of the deaf in Ethiopia was exceptional, cost-efficient and complemented well the bilateral special needs education support. Peace mediation and conflict resolution are other areas where Finnish CSOs are active. In extremely difficult circumstances in South Sudan, for example, the Crisis Management Initiative, founded by President Ahtisaari, was working with youth leaders and women parliamentarians as well as supporting conflict resolution among ruling party factions.

6.1 Abundance of projects, far and wide

According to the last detailed report published by MFA in 2011, a total of 545 organizations – domestic, international and developing country based – received grants from Finnish ODA. They had a total of 1,137 projects in as many as 103 countries. CSOs are required to contribute a minimum of 15 percent to the project costs.

³³ According to the Yearbook of International Organizations, the number of international NGOs increased from 6,000 in 1990 to more than 66,000 in 2012.

An increasing number of established CSOs – 22 organizations today – fulfill the criteria for multi-year programmatic support (over 70 percent of total CSO support). A qualifying program must be based on the organization’s own strategy and comparative advantage, with clear objectives and plans; the CSO has to have a solid international network and administrative system in place. These include faith-based organizations, NGOs, the Red Cross, trade unions, NGO foundations supporting local NGOs, and the umbrella organization of Finnish civil society organizations Kepa. Many of these organizations are well-known, professional and effective actors in development – the oldest one has been in operation for over 150 years.

Even a cursory review of their programs confirms that the Finnish CSOs receiving programmatic support operate far and wide, both geographically and sectorally. In fact, this was quite surprising. While there are several CSO projects in most of the bilateral partner countries, overall there appears to be limited sectoral complementarity between their and MFA operations (Box 5).

Close to one fifth of the CSO support is channeled through small and medium sized Finnish NGOs who implement over 300 individual projects. Based on an annual call for proposals, over 130 organizations receive funding; and they come from all walks of life. The remaining 10 percent goes to international NGOs, UN related organizations operating in Finland, and communication and global education on development. These annually funded projects are similarly spread far and wide in terms of recipient country and sector.

BOX 5. COMPLEMENTARITY IN NGO INSTRUMENTS – EVALUATION RESULTS

“Between 2004 and 2012 NGO support was very fragmented. There was limited complementarity between Finnish NGOs and bilateral co-operation. The situation was better for international NGOs and local grantees, as complementarity with Finland’s regional and country strategies was a more prominent concern in their selection. However, complementarity was also very limited within and between the NGO instruments. Finnish policies encourage complementarity, but there were no mechanisms to ensure actual implementation. Information and managerial structures of Finland’s MFA were counterproductive. Information about NGO activities was limited, not easily available, and not shared between units and embassies or with external stakeholders. Complementarity was supported by the MFA and most NGOs – some of which feared, however, that the distinction between state and civil society might become blurred.” The evaluation made several recommendations to enhance complementarity.

As mentioned earlier, the field visit to Ethiopia demonstrated how effective sectoral complementarity between bilateral aid and CSO work can be; in this case on special needs education.

Source: Olesen and Endeshaw, 2013

6.2 Results in CSO support

There is strong public support for CSOs' role in Finnish aid. It is commonly felt that they are better able to reach the poor than governments, and that their role in promoting human rights and strengthening citizens' role in development is critical. The 2010 MFA guidelines for civil society support stress that as many Finnish actors as possible should take part or have contact with development co-operation, as this helps raise public awareness and support and contributes to transparency in Finnish aid.³⁴

While relevant, one must ask whether such a vast dispersion of effort - 1,137 ongoing projects and 103 countries - is the best way to achieve results in terms of primary goals of the CSO support, that is, building CSO capacity in developing countries and reducing poverty. Contrast this to bilateral aid where selectivity and focus are readily accepted and practiced. In addition to fragmentation, there is a question of whether a more consistent effort should be made to better integrate CSO efforts with the sectoral priorities of ongoing bilateral programs. This report argues that facilitating greater complementarity between the programs will provide an opportunity to increase results on the ground, better engage civil society in Finland's bilateral aid program and to reduce the burden of the overall aid program on the recipients. This is not to suggest greater direct engagement in CSO activities by government - ensuring the operational independence of CSOs is a key asset. Rather, by ensuring appropriate synergy between official and CSO efforts, the impact over time of all Finnish aid efforts would be maximized.



**GREATER
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At the same time, apart from generating domestic support for aid, MFA and others see CSO projects as a good way to have a “foot in the door” in countries where there are no other Finnish activities. It is important to recognize, however, that this is completely different from the main development objective of CSO capacity building and poverty reduction in developing countries for which excessive fragmentation imposes a cost. In other words, there is a tradeoff between these two objectives and choices have to be made.

What complicates the assessment of results in the Finnish CSO support is a lack of evaluation by the MFA. It may be that strong public support has created complacency in this regard. Apart from complementarity (Box 6), the most recent evaluation dates back to 2008 and covers only the three foundations that provide small grants to developing country NGOs. Moreover, while the evaluation provides a detailed description of the work of the foundations, it does not contain any information on their results on the ground. The most recent Kepa evaluation is even older (2005) and equally thin on results.³⁵ Accord-

³⁴ A new municipality instrument was recently launched.

³⁵ Many CSOs commission regular internal evaluations, although their result information appears to be quite limited.

ing to the MFA, evaluations of various NGO instruments - programmatic, projects, communications, matching EU support, and conference participation - are getting underway and will be carried out in the next three years. This will be very important for the future of CSO support as currently little can be said about its results.

It is important to note, however, that the measurement of results is easier in service delivery than, say, in civil society capacity building. The latter will require different type of indicators and adequate time horizons.

The 2012 DAC peer review also noted the challenge presented by dispersed CSO work. The review concluded that “administering these numerous projects entails a heavy administrative burden and undermines the Ministry for Foreign Affairs’ capacity for monitoring the impact of Finland’s funding to and through civil society.” Currently 15 staff manage the various application processes and the large portfolio of ongoing projects. This can present oversight risks - even if a lot can be based on trust and intrinsic motivation of the CSOs. Given the limited staff resources and the distance to where the action is, the role of embassies could be much increased in project monitoring and oversight and could help create synergies with bilateral aid. Similarly, calls for proposals could take place every two to three years instead of every year.

7. Private sector participation

Jobs are the key pathway out of poverty. While the public sector sets the policy stage for development, more than 90 percent of all jobs world-wide come from the private sector.³⁶ Finland's own development experience is testimony to the increasing importance of the private sector and entrepreneurship.

Research findings highlight challenges for private enterprise in developing countries, such as access to finance, particularly for small and medium enterprises, a reliable power supply for companies in LICs, informality in MICs, training and skills for larger companies in UMICs. Removing these obstacles can result in significant job growth. While micro, small and medium enterprises in the informal sector generate most of the employment in developing countries, larger companies provide more sustainable jobs, are typically more productive, offer higher wages and more training, and support a multiple of the direct jobs they provide through distribution networks.³⁷

In Africa youth employment is a particular challenge; the continent's fast population growth will bring 11 million youth to its labor market every year for the next decade.³⁸ With the large numbers of labor market entrants, the majority of youth will end up working in the informal sector - on family farms and in household enterprises - often with very low incomes. Many young people will not have the choice of paid employment; instead, they must employ themselves. Together with the modern wage sector growth, helping boost the earnings of the self-employed is a priority. This can be done by improving the business climate for such micro enterprises and by improving the quality of basic education.

Private sector development is particularly important in fragile states where lack of economic opportunities and productive employment are key sources of fragility.³⁹ The private sector has nevertheless shown resilience in the face of conflict and fragility, operating at the informal level and delivering services that are traditionally the mandate of public institutions. However, in post-conflict situations, the private sector can also be predatory, thriving on the institutional and regulatory vacuum that prevails. Pro-poor growth strategies need to focus on strengthening the positive aspects, while tackling the negative ones.

³⁶ World Bank, 2012

³⁷ IFC, 2013

³⁸ World Bank, 2014a

³⁹ World Bank, 2011

In its 2012 DPP, the Finnish Government fully recognizes the role of the private sector in development. It also commits to increasing participation of the Finnish private sector, particularly in poor countries. Specifically, it promised to increase the capital of the state-owned development finance company, Finnfund, and provide it a special risk financing instrument. It also promised that Government will work with the private sector to develop a “new modality” to replace concessional credits, another principal private sector instrument in Finnish aid.

The new BEAM initiative - business with impact - is about innovation and offers another interesting avenue for private sector participation in Finnish aid (Box 6).

BOX 6. BEAM – BUSINESS WITH IMPACT

One of the new approaches to Finnish private sector’s participation in development cooperation is BEAM. The aim of this joint program of Tekes– the Finnish Funding Agency for Innovation – and MFA, is to assist Finnish enterprises and other actors in addressing global development challenges by converting some of these challenges into successful and sustainable business. The program supports Finnish companies, NGOs, research organizations, universities and others in developing, piloting and demonstrating innovations that improve well-being in poor countries, while giving rise to international business opportunities for Finnish companies. BEAM is a five-year program with a total volume of €50 million. The program is not restricted to a particular sector and the target countries can be any of the developing countries listed as eligible for ODA (except China).

Source: www.tekes.fi/en/programmes-and-services/tekes-programmes/beam--business-with-impact/

The next two sections assess performance of the two principal and long-standing instruments for Finnish private sector participation in ODA - Finnfund and concessional credits.⁴⁰

7.1 Finnfund

Finnfund invests with Finnish companies but also finances their partners such as long-term customers, suppliers, subcontractors and companies that license Finnish technology. It can also provide financing for projects that use Finnish technology or know-how, or generate significant environmental or social benefits. To reduce risk and hence firms’ threshold to invest, Finnfund finances profitable business ventures, using loan funding,

⁴⁰ Other instruments discussed under bilateral aid can, of course, also support private sector development in developing countries.

equity capital investments, and mezzanine finance (but not grants).⁴¹ Finnfund is profitable; it has been in red only once since it was established 35 years ago. It recycles its profits into new investments in developing countries.

In 2014 Finnfund's investments amounted to €115 million. Its outstanding portfolio exceeds €300 million and in addition it has €225 million in undisbursed approvals. The Government of Finland - as owner - requires that at least three quarters of the projects are in LMICs and LICs. Many of the investments are in manufacturing but also in telecommunications, forestry, renewable energy and health care. More than half of the investments made in recent years can be regarded as "climate finance" because they have been used for projects in renewable energy, prevention of deforestation, energy and material efficiency, and to improve the ability of poor people to adapt to climate change.

In terms of funding, the largest investment portfolios are in Tanzania, Kenya, and Honduras. The largest single project is the 310 MW Lake Turkana wind farm, co-financed with others. Once completed it is expected to be the largest wind farm in sub-Saharan Africa. In terms of number of projects, China and India are still the largest countries for Finnfund, but their relative importance is declining. Large firms in these countries do no longer need Finnfund, hence its focus is on small and medium enterprises.⁴²

Finnfund was able to provide information on results in the companies it invests. Box 7 summarizes key results achieved in 2013. This is a good beginning in terms of Finnfund becoming a true result-based organization.

Contrary to what one might have expected, the role of Finnfund in countries where bilateral grant aid has been or is being phased out - Egypt, Namibia, Nicaragua, Peru, Sri Lanka and Vietnam - has not been very important. In other words, the Finnish private sector opportunities have not so far coincided much with bilateral aid. According to Finnfund, it is not due to lack of trying; especially in Vietnam it has made significant efforts in forestry, bioenergy, and the industrial sector, but so far without success.

Importantly, Finnfund operates also in fragile states. As can be expected, this is not an easy business. It had a forestry project in South Sudan, for example, but had to withdraw due to security concerns. In Sierra Leone it has invested in rehabilitation of a palm oil press - the first such rehabilitation after the civil war. However, the press is located in an Ebola-stricken area and hence its future remains uncertain.

41 Finland's membership in the International Finance Corporation (IFC) provides Finnish firms a similar avenue multilaterally as Finnfund does bilaterally. Finnfund also has a cooperation agreement with IFC; a solar energy project in Jordan is an example of joint projects. However, IFC tends to finance large projects and hence Finnfund, as a small operator, is not often able to participate in them.

42 In addition, Finnfund operates Finnpartnership, a business partnership program financed by MFA from ODA. The program provides financial support for Finnish companies' projects in developing countries and assists in seeking out new business opportunities and partners.

BOX 7. RESULTS GENERATED BY FINNFUND-SUPPORTED COMPANIES IN 2013

- Employed 23,000 people, one third were women. Indirect employment and income effects were much larger.
- Generated 300 GWh of electricity.
- Provided 3.4 million micro-finance loans (total of €1.8 billion)
- Provided 87,500 loans to small and medium-sized enterprises (€981 million)
- Supplied better and/or cheaper products and services, such as pharmaceuticals and reliable power.
- Took action to protect the environment and engage local communities, for example, by supporting schools and clinics in their areas of operation.
- Paid direct and indirect taxes in the country of operation, mostly in Africa, worth €434 million – which is about 40 percent of Finnish ODA in the same year.

Source: Finnfund

In accordance with the 2012 DPP, Finnfund received an annual capital increase of €10 million (from ODA) during the Katainen and Stubb Governments.⁴³ Despite these increases Finnfund's operations continue to be constrained by capital rather than supply of good projects. To be able to expand, the Board is proposing an annual capital increase of €40 million for the next four years. This capital increase would make good sense for three reasons. First, developing countries, including Africa, are interested in Finnish technology and know-how. Second, Finnish technology-oriented companies are increasingly interested in expanding their operations in developing countries, including Africa. Third, in the past 35 years Finnfund has become a solid actor in its field and has strong results to show for it.

7.2 Concessional credits – the black sheep of Finnish aid?

While most ODA continues to be provided as grants, concessional credits to developing countries by bilateral and multilateral donors remain a feature of the development finance landscape. According to OECD DAC, concessional credits will continue to play a key role in mobilizing resources in support of the post-2015 SDGs, including in blended finance packages. The “concessional in character” criterion – which determined the extent to which credits can be scored as ODA – has been open to interpretation and hence

⁴³ In addition, Finnfund received €8 million from carbon credit sales proceeds in 2014.

has resulted in inconsistent reporting across DAC members. Therefore the OECD DAC high level meeting in December 2014 decided to modernize and clarify the rules governing concessional credits (Box 8).

BOX 8. NEW OECD-DAC RULES ON CONCESSIONAL CREDITS

Under the new arrangement only grants and the grant portion of concessional credits are counted in ODA. Furthermore, higher concessionality thresholds have been introduced to fix softer terms and conditions to countries most in need. In the past, the threshold for ODA eligibility was set at a grant element of 25 percent. Under the new system, loans to LICs must reach a grant element of at least 45 percent, while LMICs will require a 15 percent and UMICs a 10 percent minimum grant element. Finally, the maximum ODA interest rates permitted have been lowered for all country categories and nearly halved for LICs.

Concessional credits have facilitated participation of the Finnish private sector in international development since 1987. While Finnfund is the channel for private-to-private cooperation, concessional credits enable Finnish private participation in public sector projects in developing countries. They are commercial export credits from a Finnish or European financial institution and receive an interest subsidy from Finland's ODA. In practice, the subsidy makes these credits interest-free. The Finnish Export Credit Agency, Finnvera, provides a credit guarantee. To qualify under this scheme the project requires a Finnish content of 30-50 percent, depending on the recipient's income level. The scheme is the responsibility of the MFA, but projects are administered in cooperation with Finnvera.

At the end of 2014 the outstanding concessional credit portfolio was €130 million,⁴⁴ and interest subsidies paid from ODA during the year amounted to €15 million. While this is a small share of the Finnish ODA, only 1.2 percent, the total financial transfer is much larger: a total of €550 million since the year 2000.

The 2012 evaluation provides much food for thought (Box 9). First, lack of M&E makes it next to impossible to assess the performance of the scheme objectively. The evaluation does describe the scheme well and rates it according to common evaluation criteria. But without quantitative indicators and data on results one cannot have full confidence in the findings. When reviewing the Vietnam (and China) portfolio - admittedly superficially - it came across as focused on Finnish technologies that the recipient countries wanted to employ. Social sector projects are also prominent in areas where Finland is globally competitive. But without the projects collecting adequate data on results one cannot be sure how well they perform or how cost-efficient they are.

⁴⁴ Credit maturity is 10-12 years.

Second, the evaluation examines the projects against all the objectives of Finnish aid. It is unlikely, however, that any single project can meet all the objectives. Among other things, the projects were expected to directly reduce poverty, have extensive government and community participation, include the cross-cutting priorities (gender, marginalized groups, HIV/AIDS were assessed), involve close donor coordination, and so forth. This does not seem realistic for investments that largely are technology driven.

Third, serious administrative weaknesses - starting with missing documentation - were identified by the evaluation as were by the previous similar exercises. This is actually the most concerning aspect as without proper preparation and supervision (and M&E) one cannot expect the projects to show strong results.

BOX 9. CONCESSIONAL CREDITS – EVALUATION RESULTS 2002-2009

The scheme was evaluated for the projects approved in 2002-2009, the fifth evaluation of the scheme. The evaluation focused on sustainability, particularly environmental sustainability, and how the scheme had contributed to results on the main goal of Finnish development policy – poverty alleviation – and on a set of performance criteria, such as efficiency, effectiveness, sustainability, and so forth.

The main conclusion was that the scheme rated poorly on most of the criteria. Lack of monitoring and evaluation (M&E) was a major weakness and all concessional credit projects lacked indicators for the determination of the baseline and the results. Effectiveness was the highest rated criteria, efficiency was rated marginally unsatisfactory, relevance, impact and sustainability and Finnish value-added as unsatisfactory. Factors explaining the findings were said to include inherent tension between the scheme's commercial and development objectives; and lack of follow-up of recommendations of earlier evaluations aimed at improving the scheme. The report explored three options, i.e., winding-down the scheme, overhauling it with implementation of past recommendations, or maintaining the scheme with improvements in M&E and administrative procedures.

Source: von Weissenberg (ed.) 2012

The evaluation compared the Finnish concessional credit portfolio with other similar portfolios and concluded that about €2 million would be required annually to supervise a portfolio of this size to good practice standards. Yet, only one staff-year is allocated to the scheme in the MFA. This review's assessment is that there is simply no way that one staff-year, even with supporting consultants, is adequate for preparing, supervising and ensuring M&E for tens of projects in the portfolio. If it is not feasible to hire the required staff in the MFA, Government should consider moving the scheme to be administered either by Finnfund or Finnvera, and allocate adequate funding from the aid administration budget to it. In short, administrative weaknesses rather than the instrument itself may be the biggest problem.

Concessional credit is the one instrument that manages to raise political passions in Finnish aid. Some consider it too commercial, not development oriented enough. Others see it as a gateway to more sustainable economic relations with partner countries than grant aid. This “tug of war” could be one reason why neither MFA nor other Finnish authorities have actively marketed this instrument to Finnish companies or to developing countries. Indeed, in China and Vietnam, the two countries where the instrument has been used most actively, the program appears to be largely a result of these countries’ interest in a range of Finnish technologies rather than Finland’s efforts to promote the instrument.

The last DPP stated that, “Cooperation modalities that promote development policy objectives and complement the other development policy modalities will be developed together with the private sector to replace concessional credits.” Accordingly, MFA gradually phased out the scheme; the last projects were approved in mid-2014. Work for the replacement scheme has been delayed, however. Only in April 2015 did the Minister of International Development announce that work to replace concessional credits will start and be completed by September 2015.⁴⁵

The field visit to Vietnam highlighted these issues on the ground. Incomes in Vietnam have increased very fast, from US\$144 in 1992 to close to US\$2,000 at present. Poverty has also fallen dramatically, from 60 percent to 21 percent. Vietnam is one of the success stories among Finland’s bilateral partner countries. As a result, Finland is phasing out its grant aid by 2018. Similar developments can be expected to take place in other program countries. The question then becomes: What will replace grant aid? In fact, Vietnam as the largest user of the concessional credit instrument (along with China) provides a good example of how it can be such a replacement. In Hai Phong the recently completed Cầu Rào 2 bridge was financed by such a credit. Subsequently several bridge projects have followed on a commercial basis in Vietnam and elsewhere in Asia thanks to the successful first project. Indeed, the visit to Hai Phong and discussions with the Ministry of Finance were marked by a clear government interest in further Finnish support using concessional credits.

Namibia is another case where concessional credits have been used strategically to replace grant aid. A good example is the procurement of a marine research vessel to a country where maritime industries are important.⁴⁶ Two twinning arrangements with Finnish institutions (using the IKI) accompanied the project to ensure effective operation and maintenance. But Namibia also demonstrates that to succeed the embassy has to be proactive.

In conclusion, to engage the Finnish private sector and to continue participation in public sector projects, especially after grant aid has been phased out, an instrument like the

⁴⁵ The BEAM summarized in Box 6 is another new “cooperation modality.”

⁴⁶ A €30 million concessional credit with €5 million down payment.

concessional credit - or its replacement - would undoubtedly be worthwhile. Given also calls for a reform of traditional aid, revising this scheme in collaboration with the private sector - as promised in the 2012 DPP -will make a lot of sense. For such a revision, studying other countries' schemes, especially the Danish one, will be useful. Equally, the administrative shortcomings must be addressed decisively, including finding a possible new home for the administrative team. There is also much room to make the scheme more strategic, in terms of the choice of countries and sectors. Finnvera should market the scheme to businesses in Finland and FinPro in developing countries together with the embassies. The Team Finland network could also help.⁴⁷ Such an approach should yield a good crop of project candidates from which to select the best - rather than fund whatever happens to come by as has been the case in the past.

⁴⁷ The Team Finland network that promotes Finland's external economic relations and country brand, the internationalization of Finnish companies as well as foreign investment directed at Finland. More than 70 local teams around the world handle its activities abroad.

8. Field visit observations – results on the ground?

During the visits to two long-time partner countries, Ethiopia and Vietnam, and one fragile state, South Sudan, there were a number of themes that emerged as clear strengths of Finnish aid but also some weaknesses. While one needs to be careful on extrapolating this experience, it is quite likely that similar features would emerge in other country programs as well. The next two sections discuss the strengths and weaknesses based on these observations.

8.1 Strengths of Finnish aid

First, the robustness of Finland's relationships with the recipient governments was impressive. Partly, this reflects specific contributions of Finnish aid. One consistent message in both Ethiopia and Vietnam was that Finland had built a strong and reliable bilateral relationship that has "stood the test of time." The Vietnamese Government emphasized Finland's early recognition and its rapid progress in developing an effective aid program. The Ethiopian Government stressed that, while the war with Eritrea and the election difficulties of 2005 presented serious challenges to bilateral relations, in both instances Finnish aid was sustained and as a result there was no disruption to the key development programs - unlike to a number of other donor programs.

Second, strong bilateral relationships were reinforced by the long-standing focus of Finnish aid on agreed sectors. This strength was also noted in the most recent DAC peer review which observed that "continuity in the main areas of Finnish development co-operation builds on existing expertise and makes Finland's development programs more predictable for partners." In Ethiopia, Finland's sustained engagement in water supply has allowed the emergence of increasing confidence in the work on rural water and excellent government support for it. The Finnish approach - community managed project, CMP - has now evolved into one of Government's principal options for rural water supply nationwide (Box 10).

Finnish aid has directly brought clean water to 3 million Ethiopians in the past two decades. Moreover, Ethiopia has recently achieved the MDG in clean water. Finland's contribution to this achievement is almost a tenth - a substantial result in a country with a population of close to 100 million people.

BOX 10. WATER SUPPLY USING COMMUNITY MANAGED PROJECT (CMP) APPROACH IN ETHIOPIA

Finland's assistance to Ethiopian water sector began in 1994 in Amhara. The first two phases used a conventional financing mechanism. The community managed project (CMP) approach was initiated in 2003 to accelerate implementation. The main idea is to delegate financial accountability to communities so that investment funds for construction or rehabilitation are transferred via micro-finance institutions to them. The community is fully responsible for planning, procurement, implementation and maintenance, while local government provides technical assistance and capacity building.

In a World Bank evaluation in 2009 the CMP was found to be the best approach for community engagement and delivering effectively sustainable systems at low cost (down from €21 to €10 per capita). Today CMP is being used in 71 districts, home to 9 million people. Sustainability of CMP schemes is high (around 90 percent) thanks to the ownership of communities and their leaders. Hence, CMP is not community participation in government initiatives, but government participation in community-led initiatives. This is an excellent example of innovation in Finnish aid which has been scaled up by Government and other donors.

Source: COWASH project

The Ethiopia program on special needs education is a more complex story, but again underlines the importance of long-term engagement. When the program commenced in the early-1980s, the low primary enrollment rates resulted in limited government interest in and ownership of special needs programs. Indeed the 2010 evaluation of the Ethiopia country program noted disagreements with Government on the level of technical assistance, a lack of counterparts, and disagreements between the Finnish advisors and the Ministry of Education on the program direction. Yet, with the subsequent and successful expansion of primary enrollment in Ethiopia - now 92 percent - and emphasis on reaching 100 percent participation, Government's interest in and commitment to the special needs education has dramatically increased. As a result the sustained Finnish support for teacher training for special needs - in particular the tertiary level training that was provided in Finland - is now paying off. Importantly, the past two years have seen an impressive growth in the number of special needs children attending school - from 71,000 to 128,000 - a trend that is anticipated to continue.

In Vietnam, appreciation for Finland's long-standing support of water supply and infrastructure in Hai Phong was underlined by local officials. The early and consistent support for the city's water authority has been cited as a global best practice (Box 11).

Third, there was evidence of selectivity in program design, a positive feature in all the countries visited. As a small donor, a program that is fragmented is likely have limited impact and present oversight risks. Both the Ethiopia and Vietnam program adhere to the EU guidance of sector selectivity (limiting involvement to 3 sectors) and to date the South Sudan program is focused on the water sector. However, based on the country pro-

BOX 11. FINNISH SUPPORT TO HAI PHONG WATER UTILITY

An excellent example of efficiency in Finnish aid is support to the Hai Phong Water Supply Company in Vietnam. With a total budget of €23 million, in the 1990s Finnish aid helped a new management to rehabilitate and upgrade the dilapidated water supply infrastructure and to improve services. Technical assistance continued until 2004. This effort resulted in a high-performing water utility serving 800,000 people today. The all-in per capita cost was approximately €29, which is low in comparison with the cost in other urban water projects in the world (average is €120). After two phases of Finnish support the water utility was able to attract investments for expansion from the World Bank and Asian Development Bank. Today, Hai Phong is the leading water utility in Vietnam and has received several national awards. As said, it has also been recognized as one of the top water utilities in East Asia.

According to a survey conducted by Hai Phong Preventive Medical Centre in 2003 the improved water supply and environmental sanitation conditions had a positive impact on people's health, especially for the poor. Many waterborne diseases and diseases related to sanitation decreased: diarrhea by 48 percent and parasitical worms by 23 percent. The incidence of vector-borne diseases also decreased, partly due to the improved water supply. Hemorrhagic fever is nowadays much lower in Hai Phong than in other cities in Vietnam.

Source: Field visit to Hai Phong, Vietnam

gram evaluations, this discipline does not apply in all programs. For example, the evaluation of the Tanzania program underlined problems of fragmentation. The DAC peer review noted that while the Nepal program adhered to the broad EU guidance of focusing on three sectors, its work in “the natural resources alone involved four sub-sectors (e.g., water, land, forest and environment) and a large number of activities.”

Fourth, programs are typically centered on areas where Finland has substantial expertise and experience. The broad concentration on water reflects long Finnish experience in this sector and the investments in education (in Ethiopia) and in innovation (both in Ethiopia and Vietnam) draw directly on topics where Finland has an outstanding international reputation. The DAC peer review also noted that the priorities of Finland are “mainly areas where Finland has specific expertise, which allows Finland to build on its past experience and maintain continuity in its development co-operation.”

Fifth, there was consistent support for the “aid effectiveness” agenda in all three countries visited. The Finnish embassies were active participants in the apex mechanisms for working with recipients governments on improving aid coordination. Finland is seen as a helpful and positive force by both governments and donors. In all the sectors where projects are ongoing, Finland has also been an effective participant in the sector groups. Finland has been regularly asked to lead sector groups - far more often than would be anticipated, given the size of its program. In particular, Finnish aid was successful in working effectively with larger donors in the water sector, such as the World Bank. The



FINLAND IS SEEN AS A HELPFUL AND POSITIVE FORCE BY BOTH GOVERNMENTS AND DONORS.

Finnish activities in both water supply and education in Ethiopia were fully incorporated into the government-led sector programs, helping to ensure maximum impact. Finnish projects also drew useful guidance from analytic work done by others - again reflecting its active engagement with sector-level efforts.

Sixth, the active and effective oversight of the aid program by the two embassies visited was also notable. While the specific responsibilities for supervision were somewhat different, in each case the staff responsible for individual sectors came across as fully informed on program status, well-known to their government and donor counterparts, and capable of addressing technical and implementation issues. In key sectors, the use of Finnish consultants with long field experience was generally impressive. As recipient government's sensitivity on the use of such consultants is often a constraint to their

effective performance, it was nice to see examples of where these consultants had effectively integrated with their government counterparts to have a significant impact. There was also an example which did not work out - operational arrangements were underway to pragmatically replace the consultant.

Seventh, in both countries funds for local cooperation were being effectively managed by the embassy to provide support to sensitive areas where larger scale government projects would be unlikely to make progress. Both Ethiopia and Vietnam face considerable challenges in the areas of democratization and human rights. By reaching out to local actors on the issues of gender, transparency and human rights, the locally based NGO program appears as a realistic and constructive way to build a locally-led basis for dialogue and eventual progress in these important areas. Regarding their oversight, the two embassies had good capabilities to manage these programs with an effective use of local staff.

Finally, in each country much time was spent with the relevant EU leadership. While there was not a lot of overlap in the areas of Finnish and EU investments, there was appreciation of Finland's consistent adherence to the EU guidance on selectivity and a consistent message of close cooperation on broad aid coordination issues. Importantly, there was close and effective cooperation at the ambassador level on the key political and human rights issues that are being confronted in all three countries visited. The long-run importance of these issues to development merits such high level attention; efforts to ensure that the EU messages were consistent across member states were quite impressive.

8.2 Weaknesses in Finnish aid

During the field visits an important disconnect was observed between MFA policies and reality on the ground. Specifically, while there is considerable emphasis on “results focus” in various policy statements and reports, it did not emerge as a theme in the field. It is critically important to address this gap if one is to address the criticisms aid is facing in Finland today. The gap appears to reflect a number of issues. The most important is the lack of guidance on what a “results focus” means at the project level. Defining what is expected, putting in place guidance on what changes it implies in project preparation and supervision, and ensuring that the changes are consistently monitored emerged as a priority for Finnish aid. The DAC peer review also noted three key challenges along these lines: “existing tools were not being used; there was no overarching management strategy; and no culture for managing results within MFA.” At the same time, as DAC sensibly noted, “creating a results-based culture takes time and incentives.”

Second, a related observation was that project supervision and evaluation are very “data-lite”. The absence of data collection at the project level was perplexing. Moreover, there appeared to be little institutional interest in collecting and publicizing some of the basic data that are presently available on results. As highlighted above, even in the numerous evaluations there was little systematic data analysis underlying many of the judgments made. There is no doubt that improved data collection and analysis will be central to any effort to strengthen the “results focus” of Finnish aid. DAC also raised a broad concern on monitoring and analysis, noting that “Finland does not have a system for monitoring, or the capacity for analyzing, the impact of policies on development.” There is an urgent need to address this shortcoming.

Having made this observation early during the field visits, a consistent question posed to government and Finnish staff was on what types of information were available on the impact and costs of the projects and programs being discussed. It was a pleasant surprise to discover that in a number of cases there was data that would support clearer and more defensible judgements on their impact. As shown in Boxes 10 and 11, in the water projects in Ethiopia and Vietnam, data does exist on the number of beneficiaries, costs per capita and sustainability; in Vietnam there is also strong survey evidence on health impacts. In the case of the special needs education in Ethiopia, data on teacher training and on the growth in participation of special needs students are available. Even partial data should be organized to make a more credible case on the considerable impact of those projects. In addition, collecting relevant data will also help identify problem projects and ensure that appropriate action is taken.

A third area of weakness is lack of systematic use of analytic work to provide a policy and implementation framework for individual projects and programs. While on the positive side the technical staff in the embassies were well informed on the analytics available at the country level (often from other donors), one needs to question why more analytic



**A FOCUSED
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work is not funded by Finland in its key areas of focus. In water, forestry, education, gender, ICT, innovation and transparency, Finland has important experience and capacity that could be drawn upon. A focused analytic program could be an asset to both Finnish aid and global knowledge.

A fourth issue was the direction and oversight of Finnish CSO projects at the country level. While the responsibility for these projects remains with the MFA in Helsinki, it would be more productive to link Finnish CSOs' work, in terms of sectors, to the country strategy and programs. An excellent example of this being implemented is deaf education by the Finnish Evangelical Lutheran Mission in Ethiopia which is fully aligned with the bilateral program on special needs education. Yet, the CSO operates independently and in close collaboration with its sister organization. This could be a model for broader application. To accomplish this, the embassies should be more engaged in providing guidance to Helsinki on Finnish CSO projects at the country level; and these projects should also be included in country strategies.

Finally, the limited outreach to the public on Finnish aid was surprising. Perhaps this situation reflects the tradition of active public support; outreach was not a priority in the past. However, given the recent questioning of aid and the challenge of a more difficult economic situation in Finland, resulting in substantial cuts in the aid budget, this now has a priority. As discussed above, the field visits revealed a number of success stories that can make a strong case for the effectiveness of the existing program and would be a source of pride for the general public. Having a web site covering the country strategies is an asset but is by no means adequate. Providing a more active outreach to the general public, schools and to other potentially interested stakeholders - à la Irish aid - would be necessary to ensure more active public engagement in Finnish aid. DAC also underlined this point, observing that tradition of high public support "should not be taken for granted and should be sustained through active and consistent efforts in communication, global education and public awareness."

9. Multilateral assistance

In recent years, Finland has increased the share of multilateral assistance in overall aid (42 percent in 2014). In support of this policy, the MFA prepared a “strategic analysis” of multilateral agencies to be able to influence them more effectively and to reduce fragmentation in multilateral assistance.⁴⁸ Currently, Finnish aid supports up to 100 multilateral agencies and funds. Politicians as well as MFA staff are asking whether such a large number - for a small donor - can be effective use of Finnish aid. With limited administrative resources, the program must be hard to monitor. A similar question was posed earlier regarding CSO support, i.e., are there not too many organizations and projects to be cost-efficient, monitor them effectively and achieve results on the ground?

9.1 How effective are multilateral agencies?

MFA’s strategic analysis was largely based on a desk study of several available assessments of 29 organizations, including those carried out by bilateral donors and the Multilateral Organization Performance Assessment Network (MOPAN).⁴⁹ To add the Finnish perspective, a survey of the MFA staff working with these organizations was carried out. The MFA survey used a similar framework as MOPAN has developed. In the final analysis of the 29 organizations, the weight of the Finnish survey was one third, while that of the existing assessments by others was two thirds.

The MOPAN assessment of organizational effectiveness examines the organizational systems, practices, and behaviors that it believes are important for managing for results. The approach is an application of the principle of internal efficiency in organizational theory; a strategic and internally effective organization is expected to operate well also externally and deliver results.

Figure 3 summarizes the results for the 29 organization.⁵⁰ First, the top performer is the International Committee of the Red Cross, an important humanitarian actor; other humanitarian agencies also perform very well. Second, international financial institutions as a group perform very well. Only the African Development Bank is below average. Third, while many UN specialized agencies are in the mid-range, others are at the lower end of the internal efficiency distribution. The lowest ranked is UNWomen where Finland is the single largest funder. It is a new organization and hence its internal efficien-

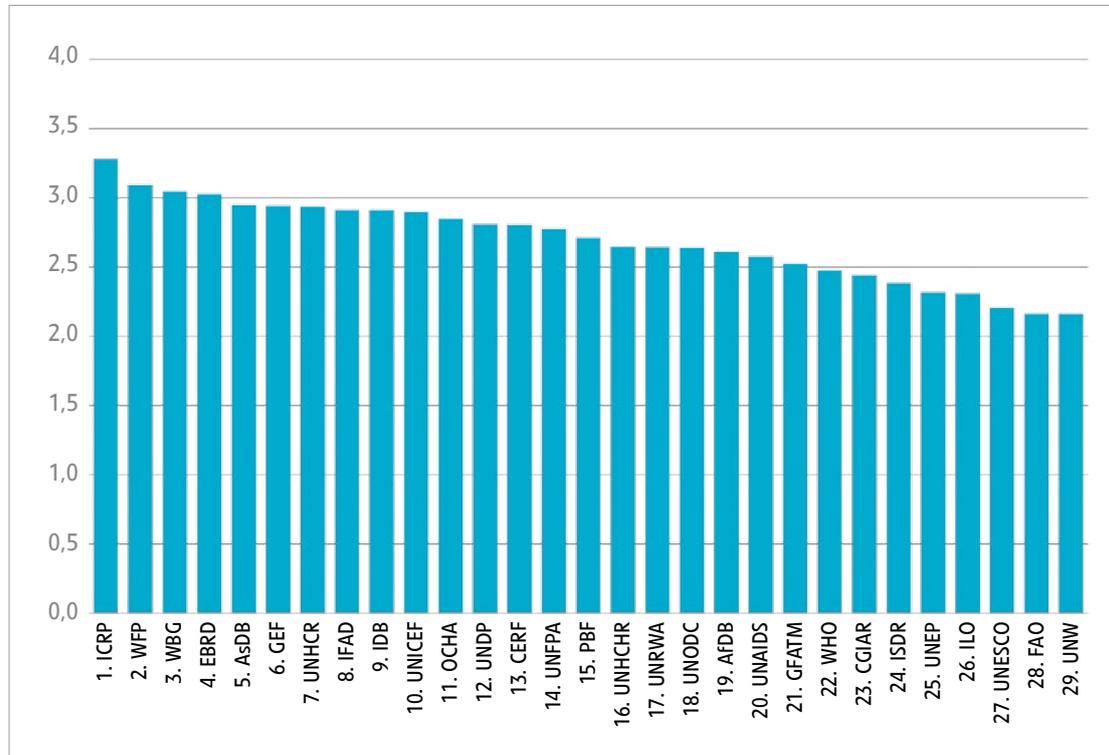
48 MFA, 2013

49 MOPAN consists of 17 countries, including Finland. <http://www.mopanonline.org/>

50 For comparability, organizations were divided in “peer groups” depending on their mandate.

cy may not have had adequate time to develop (although part of the assessment refers to its predecessor UNIFEM).⁵¹

Figure 3. Performance of multilateral agencies central to Finnish aid



Note: Scale: 1 – weak; 2 – satisfactory; 3 – good; 4 – excellent; ICRC is not a governmental body but an independent humanitarian actor.

Source: MFA 2013

The MFA survey was more comprehensive as it covered another 30 agencies which did not have comparable international assessments. Overall, they performed worse than the organizations ranked in Figure 3. These results have not been published.

It is interesting to compare the results in Figure 3 to the index of aid quality (QuODA) discussed in section 3. Recall that the latter is based on four dimensions of aid quality without combining them into a single index (as it poses methodological problems). It also ranks fewer multilateral organizations and does not include humanitarian agencies. As before, the international financial institutions – only their funds for the poorest countries are included – perform well on the four dimensions of the QuODA; and this

⁵¹ According to a more recent (2014) MOPAN evaluation of UNWomen, it is too early to assess in any comprehensive way UN-Women’s development results. However, available evidence shows that UNWomen has made progress in three of its six impact areas: ending violence against women, women’s leadership in peace and security, and advancing global norms and standards on gender equality. Overall achievements with respect to development results and the sustainability of results remain to be assessed.

time the African Development Fund is no exception. Similarly, as before, select UN agencies are found at the low end on the QuODA. Only a couple of agencies have divergent rankings; IFAD ranks much lower, while the Global Fund to fight AIDS, tuberculosis and malaria ranks higher on the QuODA.

It is interesting to note that Finnish authorities have not discontinued their support to any of the 29 multilateral agencies included in the assessment, irrespective of their performance and despite a large number of multilateral partners. One gets a sense that it is difficult for Finnish aid to discontinue any partnership that once has been established. In that case, one should examine critically the Finnish support to the other 30 or so organizations reviewed (but not reported in the MFA publication) to fulfill the second objective, i.e., to reduce fragmentation.

The fact that Finnish financial support was not cut from any of the multilateral agencies covered by the strategic analysis does not mean that the assessment had no influence at all. Importantly, “influencing plans” have since been developed – for the internal use of MFA – for all key multilateral agencies. These plans are an effort to articulate how the Finnish voice will be used in these organizations, including results matrices for follow-up. Their purpose is to ensure that the agencies address their weak points revealed by the analysis, and that Finland’s representatives to these agencies keep following up. The first annual monitoring reports of these plans have recently been prepared. While it is too early to say how well the system is working, it is a commendable effort. Over time limiting support to agencies that continue to perform poorly on an objective assessment like this increases the impact and credibility of Finnish aid.



ONE GETS A SENSE THAT IT IS DIFFICULT FOR FINNISH AID TO DISCONTINUE ANY PARTNERSHIP THAT ONCE HAS BEEN ESTABLISHED.

BOX 12. JUNIOR PROFESSIONAL OFFICERS (JPOS)

The above multilateral “influencing plans” also include JPO postings and other secondments to international organizations. The JPO program dates back to 1965 and has placed close to 1,000 Finns in multilateral agencies and programs. A 2011 evaluation found that there was a disappointingly low retention rate of Finnish JPOs in the 30 organizations that received them. At an individual level, however, former JPOs placed well and over 80 percent continued to work in development related fields. The evaluation provided a set of recommendations on how to improve retention and manage the program more strategically and effectively.

MFA has taken strong action based on the evaluation and is now implementing many of the recommendations. For example, it cut the number of agencies where it places JPOs into half and systematically follows up all JPO placements. It even organized a national event for all the JPOs posted over the past fifty years in June 2015.

Source: White et al., 2011

9.2 European Union

In absolute terms the EU institutions are the second largest donor in the world (after the US). Twelve percent of Finland's ODA was channeled through the EU in 2014. The EU reformed its aid policy in 2012 to be able to better respond to the changing international economic and political environment. An important element of the reform is a strong commitment to work at most on three sectors in any recipient country. Member countries have also committed to this policy in their bilateral aid. In some focus countries of Finnish aid (Ethiopia) this target has already been reached, while in some others (Tanzania and Zambia) it is yet to be achieved. Result orientation, focus on LICs and fragile countries, and at least a 20-percent allocation to human development are also features of the new EU aid policy. A joint programming is another new initiative. While it may take some time to materialize fully, some examples already exist, such as France joining the EU program in Mali, eliminating the burden of a separate country strategy.

The Prime Minister's Office coordinates Finland's EU policy, including the "influencing plan" for every six months period. At the working level MFA staff exercise oversight over EU aid operations through regional departments and participate in the two key policy working groups (CODEV and ACP) through its development policy department. Interviews highlighted that at the aid policy level Finland and the EU have very similar objectives.

How do the EU institutions rank on the four dimensions of aid quality compared to other multilateral agencies and bilateral donors? In the 2014 QuODA ranking, - which does not yet reflect the EU aid reform - EU institutions' strongest score continues to be reducing the burden on recipients (7/31), followed by fostering institutions in developing countries (13/31). Generally, multilaterals perform better than bilaterals on these two dimensions. On maximizing efficiency - i.e., how best to achieve sustainable growth and poverty reduction - the EU institutions rank below average (18/31). One can expect that the EU aid reform, with a stronger focus on poor countries, will improve this ranking in the future. Finally, the EU's transparency and learning dropped a great deal from 2010 (now 21/31), most likely as other donors improved their efforts in this area.

10. Humanitarian assistance

Similarly to civil society organizations, humanitarian assistance enjoys strong public support in Finland. To ensure the effectiveness of its humanitarian action, Finland revised its policy in 2012 and now channels its funding – close to 10 percent of ODA – through UN organizations, the International Red Cross and Red Crescent Movement and those Finnish NGOs that have the partner status of the European Commission Directorate-General for Humanitarian Aid and Civil Protection. The selection of organizations is based on their sector, capacity, ability to access the people in need and reliability as an independent and neutral humanitarian partner⁵² In other words, Finland is a humanitarian donor with no bilateral assistance program or procurement of its own. Instead it focuses on using its voice for reform in the organizations it supports. In addition to the goals related to humanitarian action, Finland aims to promote the development of Finnish business and expertise related to natural disasters. Many Finnish public sector agencies have also strong capacity in this area.

Overall, as shown in Figure 3, humanitarian organizations performed well in the strategic assessment of multilateral agencies; ICRC, WFP and UNHCR were in the top ten of all agencies, while ISDR was the only one among the bottom ten agencies.

Apart from national ODA, Finland participates in the funding of EU humanitarian assistance through the Community budget and contributes to the development of EU humanitarian assistance through active involvement in Council working parties. Collectively with its member states, the European Union is the world's largest donor for humanitarian relief.

In sum, the consistent use of UN agencies and select Finnish NGOs specializing in humanitarian aid appears appropriate and effective. For a relatively small donor with limited field presence, it makes little sense to establish its own systems and response capacity in this challenging area.

⁵² The largest recipients are UNHCR, WFP, SPR/ICRC and UNICEF.

BOX 13. THE HUMANITARIAN RESPONSE INDEX BY DARA

DARA, an independent non-profit organisation committed to improving the quality and effectiveness of humanitarian action for vulnerable populations affected by armed conflict and natural disasters, includes Finland among the “principled partners group” with Denmark, the Netherlands, Norway, Sweden and Switzerland. DARA notes that this group is characterized by their generosity, a strong commitment to principals of neutrality and independence, and for flexible arrangements with partners. These countries have consistently performed well on the humanitarian response index, thanks to their well-defined policies and a long tradition of government and public support for humanitarian assistance.

On the most recent (2011) index Finland ranked 9th out of 23 OECD DAC countries as humanitarian donor in terms of aid quality and effectiveness. It scored well above average in three of the pillars – responding to needs, prevention, risk reduction and recovery, and protection and international law – but below average in working with humanitarian partners and learning and accountability. However, this ranking preceded the new Finnish policy and reform in 2012 and hence may not fully reflect the improvements made. It was also noted that Finland’s policy “recognizes the importance of a comprehensive inclusion of gender awareness in all its humanitarian activities.” Donor country respondents gave Finland the highest score of any country for its support for gender sensitive approaches.

Source: <http://daraint.org/humanitarian-response-index/>

11. Evaluation & research for learning and accountability

Evaluation provides essential information for learning and accountability for public funds. At its best, evaluation makes available objective data and evidence on results and tells what works, what doesn't and why. To be effective this information needs to be fed back into policy and practice. In many ways, research is similar to evaluation. But it takes more time as it has more rigorous requirements in terms of skills, data, methods and causality. But the influence that good-quality research can have often justifies the effort. The next two sections explore how effectively evaluation and research are deployed in Finnish aid.

11.1 Evaluation – from description to results

According to the 2012 DAC peer review “Finland has an efficient and independent evaluation unit which makes the best of a limited number of staff.” The evaluation unit - which a few years ago was moved under the Under-Secretary of State for International Development - is in charge of policy, program and meta-evaluations, while the regional departments managing projects and program have responsibility for their evaluation. A management response system makes it mandatory for management to respond to each evaluation with an action plan. This an important feedback loop to make sure that evaluations are not ignored but used for learning and internal accountability. Last year €3 million or 0.25 percent of Finnish ODA was used for evaluation.

One of the key principles of Finnish development cooperation is openness. All evaluations and other policy documents are publicly available on the internet. Finland is to be commended for its open approach. At the same time, officials note that transparency does not always result in public discussion, and that Finland could improve its culture of debate. One reason, as pointed out by the National Audit Office, could be that the information on Finnish aid is rather descriptive and focuses little on actual results.

The review of dozens of evaluations for this report confirms the National Audit Office's observation: while they contain a lot of useful information, by and large, evaluation reports in Finnish aid remain descriptive, lack data and evidence and do not focus on results on the ground. In today's “aid climate” it would be imperative to improve the con-

BOX 14. WHY IS EVALUATION IMPORTANT IN FOREIGN AID?

Information needs are larger in foreign aid than in domestic public spending. Why? Because accountability in aid differs in important ways from other tax-financed expenditures. Not only are beneficiaries and financiers distinct but they live in different countries and continents, with different political constituencies. This geographical and political separation – between beneficiaries in the recipient country and taxpayers in the donor country – breaks down the performance feedback loop which allows unhappy taxpayers to vote out a government if it is not delivering good public service.

This is not the case in aid. While beneficiaries in the recipient country may be able to observe the performance of aid agencies on the ground, they cannot vote out the donor politicians responsible for their aid agency's performance. Hence for the (donor) tax-payer, evaluations provide invaluable information to be able to tell whether or not their aid agency is performing well and helping deliver results on the ground. But to fulfill this role, evaluations must be results-oriented, interesting, and communicated effectively.

tent of evaluations and make them evidence-based and results-oriented. But evaluation reports alone cannot do it; design and supervision of projects and programs will have to become results-oriented, too, and collect and report data. In sum, results-orientation must be embraced throughout the system.

11.2 Research – time for reintroduction?

The Academy of Finland funds development research worth €3 million a year. Two thirds come from MFA which - unlike many other donors - does no longer commission any research of its own. According to interviews, one reason is past experience which has not been positive. For example, several years ago when research was still being commissioned, a call for proposals on a topical development question was issued and projects were selected. But in the absence of follow-up, researchers shifted towards their own priorities and extended the initial timelines. Once the results were available, MFA had already moved on, and the problems were solved without the benefit of research results. In addition, officials found the research to have limited added value. A number of officials reckon that to get the value added, there needs to be in-house capacity to supervise and monitor the research program.

What approach could a successful reintroduction of research into Finnish aid take? Operationally useful research is typically empirical and closely linked to the projects and programs aid finances. It should prioritize important and topical issues in the areas of Finnish value added - such as education, water, forestry and transparency. A small number of rigorous impact evaluation of interesting innovations supported by Finnish aid should also be initiated - at the planning and design stage of projects. Apart from direct bene-

fits to the aid program, they would allow Finland to contribute to and benefit from the new approach to generating evidence.

To reintroduce research will require building long term partnerships between MFA and Finnish universities and research institutions which in turn would be required to partner with their counterparts in developing countries, perhaps with the help of the IKI. This would be a win-win for all as the relatively small Finnish research community is seldom in a position to do empirical development research without such cooperation; recipient country institutions would similarly benefit from collaboration; and MFA would obtain solid evidence to help improve the quality of aid. Such an arrangement would not place any major capacity requirements on the MFA. However, it would require a genuine interest in generating evidence and willingness to make the win-win to happen.

BOX 15. BRIDGING RESEARCH AND POLICYMAKING

Researchers, practitioners and policymakers often seem to live in parallel universes. Researchers cannot understand why there is resistance to policy change despite clear and convincing evidence. Policymakers bemoan the inability of many researchers to make their findings accessible in time for policy decisions. Practitioners often just get on with things. Yet better utilization of research and evidence in development policy and practice can help save lives, reduce poverty and improve the quality of life. Studies indicate that research is more likely to contribute to policy if:

- It fits within the political and institutional limits and pressures of policymakers, and resonates with their assumptions, or sufficient pressure is exerted to challenge them;
- The evidence is credible and convincing, provides practical solutions to pressing policy problems, and is packaged to attract policymakers' interest;
- Researchers and policymakers share common networks, trust each other, and communicate effectively.

Source: ODI (UK) 2004

12. Aid administration

Managers typically think about “four s’s”: strategy, structure, systems, and staffing. As strategy was already discussed at length in sections 4 and 5, this section focuses on structure and staffing in Finnish aid. MFA’s internal systems is beyond the scope of this review, given its short timeframe. This section also touches on outreach and communications as they are important in foreign aid. As highlighted in section 11, the usual performance feedback loop in public spending is broken in foreign aid. Given that beneficiaries and taxpayers are distinct and live in different countries, performance information becomes critical especially for the taxpayer.

12.1 Structure and delegation

Finnish aid is managed by the MFA; its development policy department is responsible for CSOs, multilateral and humanitarian aid, while regional departments handle bilateral and regional aid along with political, trade and other external affairs. This structure was put in place almost two decades ago and is likely to stay for some time to come. The advantage is that aid is not separated from other external relations; the disadvantage is dispersion of development cooperation across nine separate departments. This poses a real challenge for coordination.

Two bodies are especially important for coordination and quality assurance. First, the development policy steering group - consisting of all nine department directors chaired by the Minister - plays a strong role in policy steering, influencing budget allocations, reviewing multilateral influencing plans and country strategies, and in issuing related recommendations. The review of its mandate in 2014 clarified and strengthened the group’s role in strategic steering. Second, the quality assurance board plays an important role in quality control. It verifies consistency of all project and program proposals with DPP and other policy guidance; however, it does not cover all multilateral cooperation. The board currently lacks capabilities to fully appraise the potential for results and is restricted to looking at individual interventions.⁵³

The multi-stakeholder development policy committee is in principle the only body that follows DPP implementation annually and reports on performance to Government. It also plays a major role in initiating discussion on emerging development policy topics. It however lacks the human and financial resources to systematically assess performance across aid channels.

⁵³ MFA 2015a

A major weakness in the current steering structure is the missing link between result-oriented planning at a strategic and program level and budget planning. As highlighted by the MFA evaluation (2015a), there is a strong need to establish a formal policy for results-based management, create a strategic results framework, revitalize procedures to assure good quality design and report results. There is much to do on this front, as today, according to an internal survey, 80 percent of managers and staff think that the MFA does not encourage risk taking or mistakes in the pursuit of results.

The low level of delegation of financial authority is notable. All decisions above €500,000 are the responsibility of the Minister. This compromises the strategy process in three ways. By making the Minister ultimately responsible for decisions that are fully consistent with the agreed strategies, it undermines the responsibilities of regional departments and embassies for the development and implementation of an effective program. Second, by requiring most financial decisions to go back to Helsinki for endorsement, it makes it nearly impossible for the embassy to support an agreed country strategy with on-the-spot judgements. Finally, it can provide an incentive for a Minister to initiate programs or make decisions on ongoing programs without adequate prior reviews of their implications. This is not to question the Minister's right to intervene but rather to argue that if a strategy process is robust, there is less need to ministerial interventions in individual projects or programs.

The DAC review also raises this issue, noting that while the present arrangements do allow delegating authority to an embassy, this is done “on a case-by-case basis.” DAC concluded that this approach “does not provide Finland with a strategic vision of its objectives in the field, of the role Finland wishes to play in its partner countries and how embassies can better implement Finnish development cooperation, all of which could strengthen Finland's presence and impact in partner countries.”

12.2 Staffing

In the visits to Ethiopia and Vietnam, the knowledge and skills of the embassy staff working on Finnish aid came across impressive. They were actively engaged in the projects examined, with a solid knowledge of both progress and existing constraints. They were fully engaged with government counterparts and were well respected by other donors. Finally, the increased use of local staff has ensured both a useful source of local insight and that the local cooperation funds are well managed.

At the same time, an issue of concern on capacity emerges from interviews and the DAC peer review. Specifically, there is not an adequate career stream for development experts within the MFA, suggesting that the Ethiopia and Vietnam experience is not universal. The DAC review summarizes it well: “Development positions reserved for diplomats are not easily filled, and non-diplomats have few prospects to progress professionally. This contributes to high turnover in development positions, making it difficult to build



IT CANNOT BE EMPHASIZED ENOUGH THAT STAFF – THEIR SKILLS AND EXPERIENCE – IS ONE OF THE MOST IMPORTANT FACTORS UNDERLYING THE QUALITY OF AID.

development skills, retain skilled staff and build a professional knowledge system.” While improvements have been made following the DAC review, interviews for this report confirmed its assessment.

It cannot be emphasized enough that staff - their skills and experience - is one of the most important factors underlying the quality of aid. It is paramount that MFA finds a way to sustain a cadre of motivated development professionals within the Ministry, with an incentive regime that encourages them to stay rather than leave after a few years, get promoted and to rotate between the headquarters and embassies. Other countries, such as Ireland or Denmark, might provide useful examples of how to solve the staffing issues for aid in the context of a diplomatic service. The current situation is far from ideal if one wants to turn Finnish aid into a strong results-oriented program.

12.3 Outreach and communications

Finns’ conception of the global situation in respect to poverty is much gloomier than reality. Nearly eight out of ten Finns believe that extreme poverty has increased in the world since 1990. This information was revealed in a survey commissioned by the Ministry for Foreign Affairs and carried out by the research company *Taloustutkimus* in late-2014. In reality, the share of the poor among the world’s population has declined by one-half, and the number has dropped by 700 million in the last 25 years. Similarly, only 11 per cent of Finns know that the infant mortality rate has fallen by one-half during roughly the same period.

More than eight out of ten Finns believe that less than half of children in developing countries attend school. In reality, more than 90 per cent of children now start primary school. School attendance has increased the most in Africa, partly with Finnish support: an increase of almost 20 percentage points has been made since 2000. Only two per cent of Finns are able to estimate correctly that for one hundred boys in first grade, there are 95 girls sitting on school benches, which means that gender equality in education has made significant progress.

These survey findings - as well as the recent public debate - demonstrate that the present investment and effectiveness of public outreach are far from adequate. While efforts to provide easy access through the internet do ensure the ready availability of strategies, country programs, evaluations, and so forth, a more active dissemination of these documents - and most importantly results - is essential to ensure that the aid program is better understood and more actively supported. There are a broad range of stakeholders - students, NGOs, church groups, business groups - that can be more consistently engaged in Finnish aid. A new country strategy in particular offers an opportunity for dialogue that is not being exploited. Initiatives such as a “development academy” for journalists are excellent and should be intensified.

13. Conclusions and recommendations

Is Finnish aid effective and is it having an impact? was the question posed by the Finnish Parliament (*eduskunta*) for this independent review. Unfortunately, this seemingly simple question can only be answered in a way which reflects the process of development itself which is complex - and hence there is no simple “yes” or “no” answer. Having said that, international comparisons, field visits and numerous interviews and evaluation reports - a “deep dive” into Finnish aid - confirmed that, in many cases, it has produced “best practices” and real results on the ground; that poor people have benefitted; and that Finland has strong and constructive relationships with partner countries and other donors. In fact, there are likely to be many more success stories in Finnish aid which cannot be told because adequate information on results has not been collected. Data and evidence on results is a one of the main challenges for Finnish aid today.

This review began by tackling two arguments put forward in the current public debate on aid in Finland. The first, that “nothing has changed, especially in Africa,” was addressed by summarizing recent trends in developing countries, which show that Africa - where much of Finnish development assistance has concentrated - has achieved remarkable economic growth rates since the mid-1990s, with significant positive development impacts, and reversing the decline of the two previous decades. Moreover, growth has reduced poverty - in country after country post-independence increases in poverty rates have been reversed. At the same time, much more needs to be done. In Africa, the challenges are magnified by its fast population growth.

The second argument that “aid has not played a role” is more complex to address. Establishing clear linkages between recent progress and donor support is not straightforward. Two points, however, were established. First, research does not support the “aid curse” idea. On the contrary, a large empirical literature shows, on balance, positive effects of aid on growth, poverty reduction and many human development outcomes. Second, economic policy reforms, supported by donors, have contributed to the strong growth performance. Moreover, aid and debt relief have reinforced increases in governments’ own spending on the social sectors which has made a big difference especially for school enrollment, child mortality and access to clean water.

Relating Finnish aid to these general trends, this review first examined how Finland ranks among bilateral and multilateral agencies on the quality of aid - as better quality aid translates into better development outcomes. Overall, according to the independent international comparisons produced by the Center for Global Development and Brook-

ings Institution, Finland is a mid-range donor on the quality of aid, not on the top but a solid performer. Specifically, Finland is in the top ten on “fostering institutions;” above average in “transparency and learning;” and slightly below average in “maximizing efficiency” and “reducing the burden” on recipients.

In terms of its strengths, Finland has been a selective but active participant in supporting economic reforms in poor countries - these reforms have helped turn the “lost decades” into an era of economic growth, especially in Africa. It has been prepared to allocate resources to budget support - which has largely been spent on education, health and accessing clean water - and often has provided leadership in the donor community to improve coordination (including close relations within the EU at the country level).

The emphasis of bilateral aid on results-oriented country strategies and country program evaluations is commendable. Finland’s projects and programs have generally focused on poverty. Its attention to water (particularly rural water), education and forestry - areas of Finnish expertise and experience - ensures that its programs are closely aligned with poverty reduction efforts. Similarly its thematic focus on gender, inequality and climate sustainability reinforces the poverty focus.

Finland has expanded its efforts in fragile states - countries that have not yet participated in the reversal of economic performance. Such efforts are critical to begin to reduce the negative regional spill-overs and to address long-term fragility. CSOs have become an important channel of support in fragile states and beyond. This review fully endorses their role but also notes that their effectiveness and impact are hard to assess in the absence of evaluations. Recent work on mobilizing the private sector generally and work on innovation specifically, offers the opportunity to ensure that Finnish excellent capacity in these areas is made available to partner countries.

The review notes the solid assessment completed on the efficiency of multilateral agencies and looks forward to the development of an approach which relates support levels to the assessments of efficiency and results. Finland’s approach to humanitarian aid and the recent reforms are impressive. Selectivity, however, cannot be overemphasized.

In the recent past, Finland has improved the evaluation of its aid. The transparency is excellent and evaluations are systematically followed up. The main concern, as discussed repeatedly in the report, is the need for improved data collection at the project and program level. Similarly, reintroduction of operationally relevant research is an area for consideration as it would greatly strengthen the results-orientation.

The rest of this section presents a set of recommendations, a “ten-point program” to further increase the impact of Finnish aid. The recommendations are presented in the same order as the topics were discussed in the report. This review is not in a position to prioritize or sequence the recommendations, or to propose a roadmap for implementation as it would require more work and consultations than the timeframe for this review

allowed. Some of the recommendations are closely inter-linked, while some will take longer to implement than others.

The overarching recommendation of this review is that Finnish aid needs to become more results-oriented across the board. While result-orientation has received attention at the policy level, this review argues forcefully that a major effort is now required to translate the policy pronouncements into practice.

Recommendation 1 - Across Finnish aid, changes at the operational level are required to ensure that development results become a central focus. Moreover, concerted efforts are needed to ensure that better project and program level data is generated and retained. Such data will be useful to assess the impact of individual operations and to identify both best practices and problems facing projects and programs funded by Finnish aid.

Recommendation 2 - The review endorses the recent proposal, including by the Development Policy Committee, of shifting from the four-year development policy programs to a longer-term statement of principles and objectives of Finnish aid to be endorsed by Parliament. It might also be useful to set up a larger independent group - say, a team of six experts - who would take the findings of this review further and make more concrete and detailed suggestions, including a roadmap, on how best to increase the impact of Finnish aid in future. Ireland and Australia are examples of countries where such an approach has worked well.

Recommendation 3 - Finland should continue to maintain up-to-date country strategies and ensure appropriate selectivity by limiting the range of sectors and individual programs within a given partner country, thereby reducing the risk of fragmentation. Focus on fragile countries to help them pull out from fragility is increasingly relevant. As a relatively small donor, Finland should operate a bilateral aid program in a limited number of fragile countries at any given time.

Recommendation 4 - A comprehensive evaluation of the results of Finnish aid channeled through its CSOs is now timely, as a considerable period has passed since the last MFA assessment. In addition to assessing their results, the evaluation should focus on whether it would be better to consolidate this support into more focused interventions, including reducing the number of CSOs, recipient countries and projects, and on whether it makes sense to integrate CSO programs sectorally better with bilateral aid, without losing CSOs' independence.

Recommendation 5 - Finland should ensure that the capital requirements of Finnfund are met and should make the changes required to put in place a more effective concessional credit scheme. On the latter it makes sense to consider the experience of bilateral programs that are seen as successful, in particular that of Denmark.

Recommendation 6 - Finland should consider reducing the large number of multilateral agencies it is supporting. Over time Finland should actively use the assessment of the

effectiveness of multilateral agencies in guiding its allocation of resources across agencies. While it is appropriate to give time for individual agencies to address identified weaknesses, this flexibility should be time-bound.

Recommendation 7 - Finland should consider setting aside modest levels of resources to support a program of analytic work and operationally relevant development research in areas of key interest to the aid program, including impact evaluation.

Recommendation 8 - The level of financial decision making delegated to embassies should be reviewed and expanded.

Recommendation 9 - The MFA should conduct a review of how to ensure that technical development experts work within an appropriate career development stream. This is absolutely critical for the quality of aid and for achieving results on the ground. Ireland and the other Nordic countries could be useful examples in this regard.

Recommendation 10 - While key documentation on Finnish aid is made publicly available, it is not always well suited to attracting broad public interest. A clearer development communications strategy would be useful. It should include how to better articulate messages to specific audiences, what types of messages to convey based on the vision and objectives of Finnish aid, and the means to utilize to engage a wider group of interested - but unconvinced - stakeholders.

In conclusion, despite some doubts that have surfaced in recent public debates, there are many reasons why the Finns - who know poverty well from their not-so-distant history - should be proud of their foreign aid program. It is highly poverty-focused, practical, and based on the best globally competitive expertise Finland can offer. Implementation of the “10 point program” proposed by this review would enhance its impact further.

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