This evaluation was commissioned by the Ministry for Foreign Affairs of Finland to FCG International Ltd. This report is the product of the authors, and responsibility for the accuracy of the data included in this report rests with the authors. The findings, interpretations, and conclusions presented in this report do not necessarily reflect these views of the Ministry for Foreign Affairs of Finland.
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ACRONYMS AND ABBREVIATIONS

3GF  Global Green Growth Forum
ACWL  Advisory Centre on WTO Law
ADB  Asian Development Bank
AEF  Access to Energy Fund
AfDB  African Development Bank
AFT  Aid for Trade
AFT-AP AFT  Action Plan
ALICT  African Leadership Institute for Community Transformation
AMSCO  African Management Service Company
ANGONET  Arusha NGO Network
AP  Action Plan
BEAM  Business with Impact
BPO  Business Process Outsourcing
BPS  Business Partnership Support
BRN  Big Results Now!
CBI  Centre for Promotion of Imports from Developing Countries
CCO  Cross Cutting objective
CIP  Clearance in Principle
COM  Committee of Management
COMESA  Common Market for Eastern and Southern Africa
COP21  UN Framework Convention on Climate Change
CRS  Creditor Reporting System
CS  Country Strategy
CSMBA  Zambia Chamber of Small and Medium Business Associations
CSO  Civil Society Organisation
CSP  Core Support Program
CSR  Corporate Social Responsibility
CTA  Chief Technical Advisor
CTI  Confederation of Tanzania Industries
DAC  Development Assistance Committee
Danida  Danish International Development Agency
DBF  Danida Business Finance
DCED  Donor Committee for Enterprise Development
DDAGTF  Doha Development Agenda Global Trust Fund
DECP  Dutch Employers Cooperation Programme
DFI  Development Finance Institution
DFID  Department For International Development, UK
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<tr>
<th>Abbreviation</th>
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<tr>
<td>DKK</td>
<td>Danish krone</td>
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<tr>
<td>DPC</td>
<td>Development Policy Committee</td>
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<td>DPG</td>
<td>Development Partners Group in Tanzania</td>
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<td>DPP</td>
<td>Development Policy Programme (2012) (Finland)</td>
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<td>DPSG</td>
<td>Development Policy Steering Group</td>
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<tr>
<td>DRIVE</td>
<td>Development Related Infrastructure Investment Vehicle</td>
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<td>DS</td>
<td>Dispute Settlement</td>
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<td>EAC</td>
<td>East African Community</td>
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<td>EC</td>
<td>European Commission</td>
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<tr>
<td>ECA</td>
<td>Export Credit Agency</td>
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<td>EDFI</td>
<td>European Development Finance Institutions</td>
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<td>EEA</td>
<td>European Economic Area</td>
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<td>EEP</td>
<td>Energy and Environment Partnership</td>
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<td>Energy and Environment Partnership Programme (Mekong Region)</td>
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<tr>
<td>EEP-S&amp;EA</td>
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<tr>
<td>EIF</td>
<td>Enhanced Integrated Framework</td>
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<td>EnDev</td>
<td>Energising Development</td>
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<td>Finnish Development Policy (2016)</td>
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<td>Finnfund Finnish Fund for Industrial Cooperation Ltd.</td>
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<td>FISP</td>
<td>Farmer Input Support Programme</td>
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<td>FMO</td>
<td>Dutch Finance Corporation for Developing Countries</td>
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<td>FOM</td>
<td>Facility for Emerging Markets</td>
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<td>Forest Management Information System</td>
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<td>Finnpartnership</td>
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<td>Food Reserve Agency</td>
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<td>FSDP</td>
<td>Financial Sector Development Plan (Zambia)</td>
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<td>G2G</td>
<td>Government to Government</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<tr>
<td>GNI</td>
<td>Gross National Income</td>
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<td>GoT</td>
<td>Government of Tanzania</td>
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<td>GoV</td>
<td>Government of Vietnam</td>
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<td>GVC</td>
<td>Global value chains</td>
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<td>HAWASME</td>
<td>Hanoi Women Association of Small &amp; Medium Enterprises</td>
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<td>HCMC</td>
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<td>HEI-ICI</td>
<td>Higher Education Institutions Institutional Cooperation Instrument</td>
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<td>HH</td>
<td>Household</td>
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</table>
MPDF  Mekong Private Sector Development Facility
MPI  Ministry of Planning and Investment
MSFP  Multi-Stakeholder Forestry Programme
MSME  Micro, Small and Medium Enterprise
MTR  Mid Term Review
NAFORMA  National Forest Resources Monitoring and Assessment
NBPR  National Board of Patents and Registration of Finland
NGO  Non-Governmental Organisation
NIA  National Implementation Arrangement
NIS  National Innovation System
NMTP  Netherlands Management Training Programme
ODA  Official Development Assistance
ODI  Overseas Development Institute
OECD  Organization for Economic Cooperation and Development
OSS  One-Stop-Shop for Business Registration
PFP  Private Forestry Programme (Panda Miti Kibiashara)
PIB  Partners for International Business
PLARD  Programme for Luapula Agricultural and Rural Development (Zambia)
PPP  Public Private Partnership
PR  Progress Report
PSD  Private Sector Development
PSDRP  Private Sector Development Reform Programme (Zambia)
PSI  Public Sector Investment Programme
PSIF  Public Sector Investment Facility
RBA  Results-based Aid
RBM  Results Based Management
RTA  Regional Trade Agreement
RVO  State Service for Entrepreneurial Netherlands
S3P  Smallholder Productivity Promotion Programme
SADC  Southern African Development Community
SAGCOT  Southern Agricultural Growth Corridor of Tanzania
SAIS  Southern Africa Innovation Support System
SANBIO  Southern Africa Network for BioScience (BIOFISA)
SASK  Trade Union Solidarity Centre of Finland
SDG  Sustainable Development Goals
SEDP  Socio-Economic Development Policy
SIDA  Swedish International Development Agency
SIDO  Small Industries Development Organisation
SIP  Small scale Irrigation Systems Programme
SITRA  Finnish Innovation Fund
SME  Small and Medium Enterprises
SOE  State-owned enterprise
<table>
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<th>Full Name</th>
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<td>SPS</td>
<td>Sanitary and PhytoSanitary</td>
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<tr>
<td>STDF</td>
<td>Standards and Trade Development Facility</td>
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<td>TA</td>
<td>Technical Assistance</td>
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<td>TAFFA</td>
<td>Tanzania Freight Forwarders Association</td>
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<td>TanTrade</td>
<td>Tanzania Trade Development Authority</td>
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<td>TANZICT</td>
<td>Information Society and ICT Sector Development Project (Tanzania)</td>
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<td>TAP</td>
<td>Tanzania Agricultural Partnership</td>
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<td>TBT</td>
<td>Technical Barriers to Trade</td>
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<td>TEKES</td>
<td>Finnish Funding Agency for Innovation</td>
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<td>TETEO</td>
<td>Tanzania Environment &amp; Tourism Education Organisation</td>
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<tr>
<td>TF</td>
<td>Trust Fund</td>
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<td>TFF</td>
<td>Trust Fund for Forests (Vietnam)</td>
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<td>TIC</td>
<td>Tanzania Investment Centre</td>
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<td>TMEA</td>
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<td>TOT</td>
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<td>TPSF</td>
<td>Tanzania Private Sector Foundation</td>
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<td>UK</td>
<td>United Kingdom</td>
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<td>UM</td>
<td>Utrikesministeriet or Ulkoasiainministerio</td>
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<tr>
<td>UN</td>
<td>United Nations</td>
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<td>UNCTAD</td>
<td>United Nations Conference on Trade and Development</td>
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<td>United Nations Development Programme</td>
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<td>UNEP</td>
<td>United Nations Environment Programme</td>
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<td>UNIDO</td>
<td>United Nations Industrial Development Organisation</td>
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<tr>
<td>USAID</td>
<td>United States Agency for International Development</td>
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<td>Vietnam Chamber of Commerce and Industry</td>
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<td>WCO</td>
<td>World Customs Organization</td>
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<tr>
<td>VNO-NCW</td>
<td>Dutch Employers Federation</td>
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<td>WS</td>
<td>Water supply</td>
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<td>WTO</td>
<td>World Trade Organization</td>
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<tr>
<td>VTT</td>
<td>Finland’s Technical Research Centre</td>
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<td>ZAM</td>
<td>Zambia Association of Manufacturers</td>
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<td>ZARI</td>
<td>Zambia Agricultural Research Institute</td>
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<tr>
<td>ZAWIC</td>
<td>Zambia Association of Women in Construction</td>
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<tr>
<td>ZDA</td>
<td>Zambia Development Agency</td>
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<tr>
<td>ZDI</td>
<td>Zambia Department of Immigration</td>
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<tr>
<td>ZFE</td>
<td>Zambia Federation of Employers</td>
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<tr>
<td>ZGJP</td>
<td>Zambia Green Jobs Programme</td>
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<tr>
<td>ZNFW</td>
<td>Zambia National Farmers’ Union</td>
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Tiivistelmä


Suomen kauppaan tukevan kehitys- ja yhteistyön keinovalikoima on tarkoituksenmukainen vihreän talouden, työpaikkojen luomisen ja luonnonvarojen hallinnan kannalta. AFT-projektit ovat tuottaneet tuloksia ja vaikuttaneet sektoreilla joilla Suomi on kilpailukykyinen. Monet AFT-projektit ovat lisänneet yksityisen sektorin aktiivisuutta kehitysmaissa, vaikka suomalaisten yritysten osuus on edelleen vaatimaton.

Toimintasuunnitelma ei ole ohjannut kauppaan tukevan kehitys- ja yhteistyön suunnittelua ja toteutusta kumppanimaisia ja on ollut pääasiallisesti Ulkoasiainministeriön sisäinen työkalu. Lähetystöt ja ulkopuoliset kumppanit tuntevat toimintasuunnitelmaa rajallisesti.

Koordinaation vähäisyys ja eri tukimuotojen välisen synergian heikkous on rajoittanut AFT-projektien toteutuksen vaikuttavuutta.

Finnfundin raportointi osoittaa investointien tuottaneen merkittäviä työllisyysvaikutuksia. Positiivinen tuotto osoittaa, että Finnfundin sijoituspäätökset ovat yleensä ottaen onnistuneita.

Finnpartnership on onnistunut tukemaan suomalaisten PK-yritysten pyrki toimintaan kehitysmaissa, mutta ei ole tukenut toimintaa pidemmälle. Vaikutus investointien ja kehitysmaakaupan vakiinnuttamiseksi on rajallinen.


Avainsanat: Kauppa, kehitys- ja yhteistyö, kauppa, yksityissektorin kehitys, tuotanto, infrastrukturi, tuloperustaisuus
REFERAT


Finlands AFT-portfölj är relevant för grön ekonomi, att skapa arbetstillfällen och förvalta naturresurser. AFT-projekt har gett resultat och hjälpt att påverka sektorer där Finland har en konkurrensfördel. Många AFT-projekt har stimulerat aktivitet inom privata sektorn i utvecklingsländer men finländska företags insats har varit på en låg nivå.

AFT-AP har inte styrt genomförandet och planeringen av finländska AFT i partnerländer utan har främst förblivit ett internt instrument på utrikesministeriet. Ambassador och externa partners känner dåligt till AFT-AP.

AFT-projekt har inte genomförts så effektivt som möjligt på grund av begränsad samordning och dålig synergi mellan olika stödmetoder.

Av Finnfunds rapporter framgår att dess investeringar skapat många arbetsstillfällen. Den positiva avkastningen på Finnfunds investeringar indikerar att det generellt fattat lyckade investeringsbeslut.

Finnpartnership har lyckats stöda finländska små och medelstora företag att försöka finna möjligheter i utvecklingsländer men det har inte erbjudit ytterligare stöd. Dess inverkan på investeringar och handel i utvecklingsländer har varit liten.


Nyckelord: handelsrelaterat utvecklingssamarbete, handel, utveckling av privata sektorn, infrastruktur som ger avkastning, produktionskapacitet, resultatbaserad styrning.
ABSTRACT

The evaluation concerns Finland’s Aid for Trade Action Plan (AFT-AP) for 2012-2015. It includes fieldwork in Tanzania, Zambia and Vietnam, case studies on Finnfund and Finnpartnership and a comparison with Denmark and the Netherlands.

Finland’s AFT portfolio is relevant to green economy, employment creation and natural resource management. AFT projects have produced results and contributed to impact in sectors where Finland has a competitive advantage. Many AFT projects have achieved increased private sector activity in developing countries, but involvement of Finnish companies remains modest.

The AFT-AP has not guided implementation and programming of Finnish AFT in partner countries, and has primarily remained an internal MFA instrument. Embassies and external partners know the AFT-AP only to a limited extent.

Effectiveness of implementation of AFT projects has been constrained by limited coordination and weak synergy between different support modalities.

Finnfund’s reports show significant results in terms of job-creation in its investments. The positive rate of return on Finnfund’s investments indicates that its investment decisions have generally been successful.

Finnpartnership has succeeded in supporting Finnish SMEs to explore possibilities in developing countries, but has not provided further support. Impact in establishing investment and trade in developing countries is limited.

The Finnish Development Policy 2016 includes AFT-AP elements and there is no need for a new AFT-AP. It is however necessary to increase involvement of private sector in AFT; improve steering and coordination of AFT; improve RBM practices and quality of AFT-indicators and introduce new financing instruments for SMEs. Comprehensive evaluations of Finnfund and Finnpartnership are recommended.

Keywords: Aid for Trade, Trade, Private Sector Development, Productive Infrastructure, Production Capacity, Results Based Management
Taustaa
Suomi kehitti ensimmäisen kauppaan tukevan kehitysyhteistyön (AFT) toimin-
tasuunnitelman vuosilla 2008–2011 Maailman kauppajärjestö WTO:n johdolla
syntyneen kansainvälisen AFT-aloitteen myötä.
Vuoden 2012 Kehityspoliittinen toimenpideohjelma vahvisti AFT:n merkityk-
sen osana kehityspoliittikaa ja yhdeksi neljästä painopistealueesta asetettiin
"osallistava ja työllistävä vihrea talous". Samana vuonna julkaistiin Suomen
Suomen kauppaan tukevan kehitysyhteistyön päätavoite on, että "yksityinen
sektori luo ihmisarvoisia työpaikkoja ja yrityjyden mahdollisuuksia kaikille
ihmisille". Päätavoitteesta on johdettu neljä tavoitetta:
1. liiketoimintaympäristö edistää yksityisen sektorin toimintaa;
2. kehitysmat hyötyvät kansainvälisestä kaupasta ja investoinneista;
3. taloudellinen toiminta perustuu luonnonvarojen kestävään käyttöön; ja
4. ihmisten osaaminen tuottaa innovatiivista taloudellista toimintaa
AFT-toimintasuunnitelma on nyt tullut päätökseen ja uusi Suomen kehityspo-
liitiikka julkaistiin tammiukuussa 2016. Suomen kehityspoliitiikka tunnustaa
yksityissektorin ja kaupan kehittämissä tärkeyden, kuten on nähtävissä kah-
dessa sen neljästä painopistealueesta:
II  Kehitysmaiden oma talous on lisännyt työpaikkoja, elinkeinoja ja
hyvinvointia
IV  Ruokaturva sekä veden ja energian saatavuus ovat kohentuneet ja
luonnonvarojen käytetään kestävämmin
Uusi kehityspoliitiikka painottaa myös yksityisen sektorin osallistumisen
lisäämistä kehitysyhteistyössä sekä kumppanimaissa, että Suomessa.
Tämä kauppaan tukevan kehitysyhteistyön toimintasuunnitelma evaluuatio
onkin syytä nähdä kehityspoliitiikan toimeenpanon taustaan vasten. Yksityissek-
torin kehittäminen ja kauppa säilyvät osana Suomen kehityspoliittisia
tavoitteita. Evaluuatio antaa suuntaviivoja tavoitteiden toteuttamiseen mah-
dollisimman hyvin perustuen viimeisen neljän vuoden kokemuksiin.
Päämäärä
Evaluation tarkoituksena on antaa todennettavaa tietoa Suomen AFT:n onnis-
tumisesta tähän asti sekä käytännöllisiä neuvoja tulevaan varten. Tämä tieto
auttaa (1) kehittämään tulosperusteisuutta AFT:n suunnittelussa hallintoa,
oppimista ja tilivelvollisuutta varten ja (2) parantamaan Suomen AFT:n toteu-
tuksen laatua.
Tämä evaluointi pyrkii vastaamaan kolmeen pääkysymykseen:

- Kuinka AFT on onnistunut toteuttamaan Vuoden 2012 Kehityspoliittista toimenpideohjelmaa, ja erityisesti sen painopistealueita ”osallistava ja työllistävä vihreä talous” ja ”luonnonvarojen kestävä hallinta ja ympäristönsuojelu”?
- Onko toimintasuunnitelma 2012–2015 onnistunut ohjaamaan Suomen AFT:n toteutusta ja kuinka tuloksellista sen toteutus on ollut?
- Kuinka yksityissektorin tukevat instrumentit Finnfund ja Finnpartnership ovat edesauttaneet Suomen AFT:tä?

Evaluointi arvioi myös AFT:n toteutuksen laadun, ottaen huomioon tarkoituksenmukaisuuden, tehokkuuden, tuloksellisuuden, vaikuttavuuden ja kestävyyden. Lisäksi evaluointi on tarkastellut johdonmukaisuutta ja täydentävyyttä sekä lapileikkaavien tavoitteiden ja tulosperustaisuuden toteutumista.


Lahestymistapa painotti maakohtaisa tarkastelua näissä kolmessa kumppanimaassa, mikä saattaa rajoittaa löydösten laajempaa merkityksellisyyttä suhteessa kaikkiin niihin maihin, joiden kanssa Suomella on kehitysyhteistyö- ja taloussuhteita. Tämä lahestymistapa antaa kuitenkin mahdollisuuden järjestää ja parantaa mahdollisuutta oppimiseen aiemman AFT-toiminnan kokemuksista.

Tärkeimmät löydökset


Kauppaa tukevan kehitysyhteistyön tuloskehikkoon raportoitetujen tulosten kokonaisvaltainen analyysi osoittaa, että vaikka tiettyjä tuloksia on saavutettu, on niitä vaikea vetää yhteen korkeammalla tasolla. Suurin osa todennettavista tuloksista on nähtävissä hanketasolla, erityisesti koska yksittäisiä hankkeita evaluoidaan säännöllisesti. Maataisen tarkastelussa havaitaan, että AFT-toimintaa toteutetaan taloudellisesti hyvin erilaisissa toimintaympäristöissä. Vietnamiassa talouskehitys ja integrointuminen kansainvälsiin mark-

Kansainvälisten järjestöjen toiminta on linjassa AFT-toimintasuunnitelman kanssa, mutta varsinaisten hankkeiden toteutus ei ole hyvin yhteydessä Ulkoasianministeriön eri osastoihin eikä Suomen edustustoihin. Tämä on ongelmanlinna silloin Suomen apu kanavoidaan kansainvälisten järjestöjen tukematta laajamittaisesti maatasalla.


Finnpartnership on saavuttanut vain rajallisia vaikutuksia tarkasteltuissa maissa, joskin suomalaiset yritykset arvostavat Finnpartnershipin antamaa tukea kansainvälisten toiminnan alkuun saattamisessa. Liikekumppanuustuen maksatukset ovat hyvin alhaisia verrattuna sitoumuksiin. Samoin Matchmaking-palvelussa varojen käyttö on ollut vähäistä.

Vastaukset evaluation pääkysymyksiin

ovat lisänneet yksityisen sektorin aktiivisuutta kehitysmaissa, vaikka suomalaisten yritysten osuus on edelleen vaatimaton. Suomen AFT:n kokonaisvaltaista vaikutusta on mahdoton mitata, mutta hanketasolla todistusaineisto hyvien tulosten ja kehitysvaikutusten aikaansaannista on kattavaa.


AFT-hankkeiden toteutus ei ole ollut täysin optimaalista, lähinnä johtuen koordinaation ja eri kanavien ja valineiden välisen linkkien puutteesta. Ulkoasiainministeriön, edustustojen ja ulkoisten partnerien valinen synergie ei ole toteutunut. Erityisesti kansainvälisten järjestöjen hankkeet ja yksityissektoriin instrumentit eivät ole riittävän yhdenmukaisia ja yhteydessä muihin AFT-toimiin.


Suositukset

1. AFT suositellaan sisällytettäväksi nykyiseen ja tulevaan kehityspolitiikan suunnittelun ja seurantamekanismeihin siten, että jo olemassa olevia tulosperustaisia käytäntöjä kehitetään edelleen. Uusi AFT-toimintasuunnitelma ei ole tarpeen. Kehitysyhteistyön kumppanuuksissa, siirtymämaissa ja talous- ja kauppasuhteisiin perustuvissa kumppanuuksissa on otettava huomioon maiden erilaiset kehitysputoutot ja luotava erilliset muutosteoriat.


7. Suositellaan että Finnfundista ja Finnpartnershipista tehtäisiin kattavat evaluaatiot. Finnfundin, Finnpartnershipin ja ulkoasiainministeriön tulisi kehittää keskinäistä tiedonvaihtoa strategioista ja toimista. Ulkoasiainministeriön tulisi tutkia mahdollisuuska yksityissektorin instrumenttien keskitetynämpään ohjaamiseen, jotta instrumenttien toiminta olisi tarkoituksenmukaisempaa kehitysyhteistyön kumppanimaissa ja että edustustojen ja Team Finland valmiuksia hyödynnettäisiin tehokkaammin kehityismaissa, siirtymämaissa ja taloudellisen kumppanuuden maissa.

8. Ulkoasiainministeriön ja edustustojen tulisi keskustella AFT-hankkeita toteuttavien kumppanien kanssa keinoista, joilla voidaan siirtyä tuotantoa tukevista hankkeista kohti markkinoiden ja kansainvälisen arvoketjun kehittämistä.

9. AFT:n hallintoa ja tilivelvollisuutta tulisi kehittää sisällyttämällä se olemassa oleviin hallinnon rakenteisiin, joilla on päätöksentekovaltuudet.

10. Ulkoasiainministeriön tulisi kohdistaa kansainvälisten järjestöjen AFT-tuki kansainvälisen tai alueellisen liiketoimintaympäristön kehittämisen ja vahentää tukea maakohtaisille AFT-projekteille.
Bakgrund till utvärderingen

Finland tog fram sin första handlingsplan för handelsrelaterat utvecklings- 
Samarbete (Aid for Trade Action Plan, AFT-AP) för perioden 2008-2011 efter att 
Internationella WTO-ledda initiativet Aid for Trade (AFT) lanserats.

Utvecklingspolitisiska åtgärdsprogrammet av 2012 fastställde relevansen av 
AFT i och med att en av dess fyra prioriteringar var en "inkluderande och sys-
selsättande grön ekonomi". Samma år lanserades andra AFT-AP för perioden 
2012-2015.

Målsättningen för AFT-AP är att privata sektorn ska skapa anständig syssel-
sättning och forutsättningar för entreprenörskap för alla. Denna målsättning 
har konkretiserats i fyra punkter:

1. Ett sunt företagsklimat stimulerar verksamhet inom privata sektorn.
2. Utvecklingsländer gagnas av internationell handel och internationella 
   investeringar.
3. Ekonomisk verksamhet baseras på hållbart utnyttjande av naturressurser.
4. Människors färdigheter och kunskaper skapar innovativ ekonomisk 
   verksamhet.

Perioden för AFT-AP 2012-2015 har gått ut och Finland lanserade en ny 
utvecklingspolitik i januari 2016. Även i den lyfts fram betydelsen av privata 
sektorn och handelsutveckling, vilket framgår tydligt av två av dess fyra 
prioritetsområden:

Område II – Utvecklingsländernas egen ekonomi har ökat arbetstillfällena, 
näringsgrenarna och välfärden.

Område IV – Matsäkerheten samt tillgången till vatten och energi har förbätt-
rats och naturressurserna används mer hållbart.

Nya utvecklingspolitiken betonar också betydelsen av att privata sektorn invol-
veras mer i utvecklingsinitiativ såväl i de utvecklingsländer som Finland sam-
arbetar med som i Finland.

Denna utvärdering av AFT-AP för perioden 2012-2015 ska ses mot bakgrunden 
av genomförandet av nya utvecklingspolitiken. En utveckling av privata sekt-
orn och handel kommer att fortsättningsvis stå på dagordningen för finländsk 
utvecklingspolitik. Utvärderingen ger riktlinjer för hur detta kunde göras på 
bästa möjliga sätt på basis av lärdomarna av fyra föregående åren.

Syfte med utvärderingen

Syftet med utvärderingen är att ge evidensbaserad information om framgång-
arna för finländska AFT fram till nu och praktiska riktlinjer för framtiden för 
finländska AFT. Denna information gör det möjligt att 1) förbättra resultatba-
serade styrningsapproachen till AFT-planering med tanke på styrning, inlärning samt redovisning och ansvar och 2) höja kvaliteten på genomförandet av finländska AFT.

Utvärderingen ska besvara tre centrala frågor:

- Har AFT hjälp att genomföra utvecklingspolitiska åtgärdsprogrammet av 2012 och mer specifikt dess prioriteringar ”en inkluderande och sys
selsättande grön ekonomi” och ”en hållbar hantering av naturresurser, och miljöskydd”?
- Har AFT-AP 2012–2015 hjälp att styra genomförandet av finländska AFT och hur effektivt har det genomförts?
- Hur bidrar privata sektorns instrument Finnfund och Finnpartnership till finländska AFT?

I utvärderingen bedöms ytterligare kvaliteten på genomförandet av AFT genom att studera relevansen, effekten, effektiviteten, inverkan och hållbarheten. Utvärderarna har dessutom studerat koherensen och komplementariteten samt hur tvärsекторiella målsättningar följts och resultatbaserade styprinciper tillämpats.

Utvärderingen utfördes av ett team på fem internationella konsulter från okto
ber 2015 till maj 2016. Ett viktigt forskningsinslag var att utvärderingen omfat
rade två fallstudier (Finnfund och Finnpartnership) och tre besök till finländska partnerländer (Tanzania, Vietnam och Zambia).

En approach som främst betonar landstudier kan begränsa relevansen och allmänna betydelsen av rönen för alla de länder med vilka Finland har utvecklingssamarbete och ekonomiska relationer. Det anses dock att landstudier möjliggör mer ingående insikter och förbättrar möjligheten att lära sig av tidigare AFT-aktiviteter.

**Utvärderingens huvudsakliga resultat**


Av en analys av de resultat som rapporterats inom ramarna för AFT på global nivå framgår att fastän specifika resultat uppnåtts är dessa svåra att slå sam-
man på en högre nivå. Bevis på resultat och utfall finns för det mesta på pro-
jektnivå, speciellt därför att enskilda projekt utvärderas regelbundet. I landstu-
dierna pågick AFT-åtgärder i varierande ekonomiska sammanhang. I Vietnam
blev ekonomiska utvecklingen och internationella marknadsintegrationen snabbare under utvärderingsperioden men detta ökade inte handelsrelatio-
nerna med Finland. Zambia och Tanzania skilde sig klart från Vietnam. Dessa länderns internationella marknadsintegration är ytterst begränsad. I Tanzania
är ekonomiska utvecklingen mer dynamisk än i Zambia och landet har lockat
största delen av finländska intresset med tanke på instrumenten inom privata
sektorn. Detta är förbluffande eftersom ekonomiska verksamheten och han-
deln är klart mindre livfulla i Tanzania än i Vietnam. Finländska företag hade
nog varit aktiva i Vietnam men till stor del hade de skött sin affärsverksamhet
på egen hand. Dessa kontextuella faktorer är relevanta för AFT-åtgärder, sär-
skilt inom ramarna för nya finländska utvecklingspolitiken i vilken det kla-
re pratas om ökat finländskt mervärde i utvecklingsamarbete och en större
involvering av finländska privata sektorn i utvecklingen av privata sektorn,
handel och investeringar i utvecklingsländer.

Multilaterala organisationer aktiva inom AFT arbetar bra enligt AFT-AP men
då projekt genomförs i praktiken finns det inte en bra kontakt med avdelning-
arna på utrikesministeriet och speciellt inte med ambassader. Detta är proble-
matiskt i de sammanhang då Finland stöder oronmärkta projekt som multilate-
rala organisationer genomför i partnerländer.

En jämförelse med Danmark och Nederländerna visade att dessa länder har en
mycket mer avancerad utvecklingspolitik och instrument för privata sektorn
än Finland. Bågge länderna har lyckats öka sina handelsrelationer med Viet-
nam efter att de övergått från officiellt utvecklingsbistånd till sina nuvaran-
de system, men i likhet med Finland utvecklades deras handelsrelationer med
Zambia och Tanzania inte positivt efter att biståndsmetoden bytts ut.

Finnfunds investeringar har gett bra resultat och inverkan i samband med
flesta fältprojekt, särskilt om vi mäter antalet skapade arbetstillfällen. Ibland
stöts det på politiska och sociala problem, främst i samband med vattenkrafts-
projekt och ouppklarade markrättigheter. Finnfund är en av få organisationer
som rapporterat om skapade arbetstillfällen inom AFT-resultatramarna. Finn-
funds investeringar har inte ett nära samband med övriga finländska bistånd-
såtgärder i de studerade länderna med undantag av Tanzania där det skapats
kontakter med skogssektorn. Informationsutbytet mellan Finnfund, utrikes-
ministeriets avdelningar och särskilt finländska ambassader är begränsat.

Finnpartnership har haft en begränsad inverkan ute på fältet i de studerade
länderna men finländska företag har uppskattat dess stöd då de startat sin
affärsverksamhet utomlands. Utbetalningen av företagspartnerskapsstöd till
projekt är fortfarande mycket låg jämfört med åtagandena. Även i samband
med Matchmaking-tjänsten har anslagna medel använts i låg grad.

**Centrala utvärderingsfrågorna**

**Har AFT hjälpt att genomföra utvecklingspolitiska åtgärdsprogrammet av 2012?**

Enligt landstudierna är finländska AFT-portföljen relevant för grön ekonomi,
att skapa arbetstillfällen och utnyttja och förvalta naturresurser (energi och
miljö). De senaste årens AFT-projekt har gett resultat och hjälpt att påverka
specifika sektorer där Finland har konkurrensfördelar och kan bidra med mer-
värde. Dessa sektorer är vatten, energi, miljö, IKT och innovation, skogsbruk
och fiskeri. Många AFT-projekt har lett till att partners från privata sektorn i utvecklingsländer deltagit mer men finländska företag är fortfarande mycket dåligt engagerade i initiativ som gäller privata sektorn i partnerländer. Finländska AFT:s sammantagna effekt kan inte mätas men på projektnivå finns det klara bevis på att bra resultat och inverkan uppnåtts.

**Har AFT-AP 2012–2015 hjälpt att styra genomförandet av finländska AFT och hur effektivt har det genomförts?**


AFT-projekt har inte genomförts så effektivt som möjligt, vilket främst beror på bristfällig samordning och dåliga kontakter mellan instrument och bistandsmetoder samt svag synergie mellan avdelningarna på utrikesministeriet, ambassader och externa partners. Särskilt multilaterala projekt och instrumenten för att utveckla privata sektorn är inte tillräckligt samordnade och har bristfålliga kontakter med övriga AFT-åtgärder.

**Hur bidrar privata sektorns instrument Finnfund och Finnpartnership till finländska AFT?**

Av Finnfunds rapport framgår att det uppnår betydande resultat via sina investeringar då det handlar om att skapa arbetstillfällen. Yterligare har Finnfund bidragit till att utveckla privata sektorn genom att erbjuda finansiering i utvecklingsländer, inklusive långkommuländer där finansiering normalt inte finns till hands. Positiva avkastningen på Finnfunds investeringar indikerar att bolaget generellt fattat lyckade investeringsbeslut och därmed medverkat till finländska AFT. Finnfunds investeringsportfölj är relevant för vissa fokussektorer inom finländskt utvecklingssamarbete, särskilt skogsbruk, energi och miljö. Informationsutbytet kring investeringsmöjligheter mellan Finnfund, utrikesministeriet och ambassader samt sambandet mellan investeringar, AFT-projekt och projektpartners är för svaga för att det skapades effektivt synergiefördelar mellan AFT-relaterade utvecklingsåtgärder och finansiella investeringsstödet.

Finnpartnership är en efterfrågestyrd institution för projektstöd och matchmaking mellan företag. Det finns sällan ett starkt samband mellan dess verksamhet och övriga finländska åtgärder och projekt. Finnpartnership har lyckats stöda finländska små och medelstora företag att försöka finna handels- och investeringsmöjligheter i utvecklingsländer men det har inget mandat att fortsätta stöda dessa företag då de vill grunda effektiva uppstartföretag eller investera. Darför har Finnpartnership haft endast liten inverkan på finländska företags investeringar och handel i utvecklingsländer. Samma gäller dess bidrag till finländska AFT.
**Rekommendationer**

1. AFT ska integreras i existerande och nyligen framtagna utvecklingspolitisiska planerings- och övervakningsmekanismer och integreringen i existerande resultatbaserade styrningspraxisen ska förbättras. Efter 2015 behövs ingen ny AFT-AP. Skilda utvecklingsstigar och specifika förändringsteorier behövs för Finlands viktigaste partnerländer, övergångsländer och länder som är ekonomiska eller handelspartners.


4. Utrikesministeriet ska stärka privata sektorns engagemang och andra intressenters deltagande i planeringen och genomförandet av AFT. I Finland bör utrikesministeriet fundera på att i sin dialog med privata sektorn övergå från konsultering till direkta partnerskap. Samtidigt bör utrikesministeriet fasta mer uppmärksamhet vid samarbete mellan många intressenter i AFT-projektinitiativ. Initiativ som omfattar åtgärder för att skapa offentlig-privata partnerskap och samarbete mellan många intressenter kunde få en bonus eller tekniskt eller diplomatiskt extrastöd från utrikesministeriet.

5. Utrikesministeriet ska komplettera sina nuvarande instrument för utveckling av privata sektorn med nya instrument fokuserade på små och medelstora företag och många intressenters deltagande för att främja innovation. Detta förutsätter att utrikesministeriet utvecklar mekanismer fokuserade på lån och garantier till små och medelstora företag i stället för bidrag.


8. Utrikesministeriet och ambassader ska diskutera med partners som genomför AFT om hur man övergår från produktionsfokuserade projekt till att stärka approacher fokuserade på att utveckla marknaden och internationella leveranskedjan.

9. Utrikesministeriet ska förbättra förvaltningen, redovisningen och ansvaret kring AFT genom att vidareintegra det i existerande förvaltningsstrukturer som har mandat att fatta beslut.

10. Utrikesministeriet ska fokusera sitt stöd till AFT-relaterade internationella organisationer och på att förbättra företagsklimatet på internationell och regional nivå och mindre finansiera fältprojekt i specifika partnerländer.
SUMMARY

Background of the evaluation

Following the launch of the WTO-lead international Aid for Trade (AFT) initiative, Finland developed its first Aid for Trade Action Plan (AFT-AP) for the period 2008–2011.

The Development Policy Programme (DPP) of 2012 established the relevance of AFT, one of its four priority areas being “an inclusive green economy that promotes employment”. In the same year, the second action plan for Aid for Trade for 2012-2015 was launched.

The objective of the AFT-AP is that "the private sector creates decent employment and opportunities for entrepreneurship for all”. Four goals are derived from this objective:

1. A sound business enabling environment promotes private sector activity;
2. Developing countries benefit from international trade and investment;
3. Economic activity is based on the sustainable use of natural resources; and
4. People’s skills and knowledge produce innovative economic activity.

The AFT-AP 2012-2015 has now come to an end and Finland’s new Development Policy (FDP) was launched in January 2016. The FDP again recognises the importance of private sector and trade development as is evident from the definition of two of its four pillars:

**Pillar 2:** Developing countries’ own economies have generated more jobs, livelihood opportunities and wellbeing;

**Pillar 4:** Food security and access to water and energy have improved, and natural resources are used sustainably.

The new FDP also stresses the importance of increased private sector engagement in development initiatives, not only in Finland’s developing partner countries but also in Finland.

The current evaluation of Finnish Aid for Trade during the period of 2012-2015 should be seen against the backdrop of the operationalization of the FDP; private sector development and trade will remain on the Finnish development agenda. This evaluation provides guidance on how this can best be done based on lessons learned from the previous four years.

Purpose of the evaluation

The purpose of the evaluation is to provide evidence based information on the success of Finland’s AFT so far and practical guidance for the future of Finland’s AFT. This information will allow to: 1) improve the results based manage-
ment approach in AFT programming for management, learning and accountability purposes and 2) improve the quality of implementation of Finnish AFT.

This evaluation aims to respond to three main evaluation questions:

- Has AFT succeeded in realizing Finland’s DPP 2012 and more specifically its priority areas: Inclusive Green Economy that Promotes Employment and; Sustainable Management of Natural Resources; Environmental Protection?
- Has Action Plan 2012-2015 succeeded in guiding implementation of Finnish AFT and how effective has implementation been?
- How do private sector instruments Finnfund and Finnpartnership contribute to overall Finnish AFT?

Furthermore, the evaluation assesses the quality of AFT implementation by looking at aspects of relevance, effectiveness, efficiency, impact and sustainability. Additionally, the evaluators have examined issues of coherence and complementarity, adherence to crosscutting objectives and application of Results Based Management principles.

The evaluation was conducted from October 2015 to May 2016 by a team of five international consultants. An important research component was the inclusion of two case studies on Finnfund and Finnpartnership and the conduct of three country field visits to Finnish partner countries: Tanzania, Vietnam and Zambia.

The approach of working largely with country studies might limit the broader implication and relevance of the findings to all countries where Finland has development cooperation and economic relations. It is, however, believed that the use of country studies enables deeper insights and increases the possibility of learning from past experiences of AFT activities.

**Main findings from the evaluation**

The country studies clearly showed that AFT interventions constitute an important part of the overall development cooperation portfolio. These interventions are managed and implemented by a variety of departments in the Ministry of Foreign Affairs and by a range of external partners. While the AFT interventions are very relevant and in line with the DPP of 2012 and development strategies of partner countries, they are often poorly coordinated between different departments, aid modalities and instruments. The AFT Action Plan has not been successful in streamlining the efforts of the different actors. Furthermore, Finnfund, although labelled as an AFT instrument, is not directly guided by the AFT-AP and its operations are largely parallel to other Finnish AFT interventions at the country level. While results have been achieved in many AFT-related projects and impact on private sector development has been achieved at the micro-level and sometimes sector level, more general impact from these projects remains limited.

Analysis of results reported in the AFT framework at the global level shows that although there are specific results, they are difficult to aggregate at higher levels. Most of the evidence of results and outcomes remains at project level,
particularly because individual projects are regularly evaluated. In the case of the country studies, the AFT interventions took place in different economic contexts. In Vietnam, economic development and integration into international markets accelerated during the period covered by the evaluation, but this did not lead to increased trade relations with Finland. The cases of Zambia and Tanzania are quite different from the case of Vietnam. The integration of these countries into international markets is very limited. In Tanzania, economic development is more dynamic than in Zambia, and it has attracted most of the Finnish interest in the private sector instruments. This is remarkable since Tanzania’s economic activity and trade are much less vibrant than those of Vietnam. This does not mean that Finnish companies have not been active in Vietnam, but that they have largely done their business activities independently. These contextual factors are relevant for AFT activities, particularly in the framework of the new Finnish Development Policy that speaks more explicitly of increased Finnish value added in development cooperation and increased Finnish private sector engagement in private sector development, trade and investment in developing countries.

Multilateral organisations active in Aid for Trade work well in line with the AFT Action Plan, but actual implementation of projects is not well linked with different departments of the MFA and particularly not with the embassies. This is problematic in those cases where Finland supports earmarked projects implemented by the multilateral organisations in the partner countries.

A comparative study with Denmark and the Netherlands showed that both these countries have much more advanced private sector development policies and instruments than Finland. These countries have succeeded in increasing their trade relations with Vietnam after transitioning from ODA. However, similarly to Finland, their trade relations with Zambia and Tanzania did not develop favourably after changes in aid modalities.

Finnfund’s investment portfolio shows good results and impact of most projects on the ground, particularly when measured by employment creation. Political and social problems are occasionally encountered, mostly in cases of hydropower projects in which issues of land rights were not solved. Finnfund is one of the few organisations that have reported on job-creation in the AFT results framework. Finnfund’s investment portfolio is not well linked with other Finnish aid activities in the countries studied, with the exception of Tanzania where links in the forestry sector have been established. There is limited exchange of information between Finnfund and different MFA departments, and particularly the Finnish Embassies.

Finnpartnership has achieved limited impact on the ground in the countries studied, but Finnish companies have appreciated the support of this facility in starting up their foreign business activities. Disbursements in Business Partnerships Support projects have remained very low in comparison to commitments. Similarly in the Match Making Service, the usage of the allocated funds has been low.
Responses to the main evaluation questions

Has AFT succeeded in realizing Finland’s DPP 2012? The Finnish AFT portfolio in the country studies is found to be relevant in relation to green economy, employment creation and use and management of natural resources (energy and environment). AFT projects in the past years have produced results and contributed to impact in specific sectors, in which Finland has competitive advantages and can bring added value. These sectors are water, energy, environment, ICT and innovation, forestry and fisheries. Many AFT projects have achieved increased involvement of private sector partners in a developing country, but the involvement of Finnish companies in private sector initiatives in the partner countries is still very modest. The impact of Finnish AFT at the aggregate level is not possible to measure, but at the level of specific projects there is ample proof that good results and impact were achieved.

Has the AFT Action Plan 2012-2015 succeeded in guiding implementation of Finnish AFT and how effective has implementation been? The AFT Action Plan has not guided implementation of Finnish AFT and programming in partner countries, and has primarily remained an internal MFA instrument. Embassies and external partners only know the Finnish AFT Action Plan to a limited extent. However, in practice many AFT interventions in the country studies were well in line with the objective, goals and focus themes mentioned in the action plan even when not guided by the AFT Action Plan itself. This indicates that other sources and mechanisms have guided programming towards AFT and a private sector focus, especially the Development Programme Policy of 2012 and now the new Finnish Development Policy of 2016, with an even more explicit focus on these themes. As a result, a separate thematic action plan on Aid for Trade is largely obsolete as its elements are already integrated in other key strategies and guidance documents.

The effectiveness of implementation of AFT projects has not been optimal, mainly due to limited coordination and weak linkages between different instruments and support modalities and limited synergy between different departments of the MFA, embassies and external partners. Particularly multilateral projects and the private sector development instruments are not sufficiently in line and linked with other AFT development interventions.

How do private sector instruments Finnfund and Finnpartnership contribute to overall Finnish AFT? Finnfund’s reports show that it is achieving significant results through its investment activities in terms of job-creation. Additionally, Finnfund has contributed to private sector development by providing finance in developing countries, including in low-income developing countries, in which financing is generally not available. The positive rate of return on Finnfund’s investments is an indicator that this institution has generally been successful in its investment decisions and therefore has contributed to the Finnish AFT. Finnfund’s investment portfolio is relevant for some of the focus sectors in the Finnish development cooperation, particularly forestry, energy and environment. Exchange of information between Finnfund and the MFA and embassies on investment possibilities and linkages of investments with AFT projects and project partners is too limited to effectively create synergy between AFT related development interventions and economic investment support.
Finnpartnership’s activities as a demand driven facility for project subsidies and business matches are often not well linked with other Finnish development efforts and projects. Finnpartnership has succeeded in supporting Finnish SMEs to explore possibilities for trade and investments in developing countries, but the facility has no mandate to further support SMEs in realising effective start-ups and investments. As a result, impact of Finnpartnership in establishing investment and trade in developing countries by Finnish companies has remained limited as has its contribution to Finnish AFT.

Recommendations

1. The evaluation recommends for AFT to be integrated into existing and newly developed development policy planning and monitoring mechanisms and for integration into already existing RBM practices to be improved. No new AFT Action Plan beyond 2015 is needed. Different pathways for development and specific theories of change are required for Finnish core partner countries, transition countries and economic partner countries;

2. MFA needs to continue ongoing efforts to further develop a simple and manageable set of AFT indicators. The evaluation recommends that the MFA develops a hybrid system of central and decentralised indicators, in which the indicator on number of jobs created for men and women by AFT interventions remains;

3. Improved planning and reporting on AFT interventions will also require developing RBM systems and capacity of MFA staff and Embassy personnel to report on AFT specific results frameworks and indicators. The evaluation recommends for the MFA to develop practical instructions and checklists on how to integrate AFT into the project cycle, results frameworks, CSs, influencing plans and regular embassy plans;

4. The evaluation recommends for the MFA to strengthen private sector involvement and multi-stakeholder participation in AFT planning and implementation. In Finland, the MFA should consider stepping up its efforts in its dialogue with the private sector from consultation to establishing direct partnerships. At the same time, more attention should be given by the MFA to multi-stakeholder cooperation in AFT project initiatives. Initiatives that include actions for public-private partnerships and multi-stakeholder cooperation could receive a bonus or extra technical or diplomatic support by the MFA;

5. The evaluation recommends for the MFA to complement the current portfolio of private sector development instruments with new instruments that focus on SMEs and multi-stakeholder participation to enhance innovation. MFA should develop facilities that instead of subsidies focus on loans and guarantees to SMEs;
6. The evaluation recommends for the MFA to develop specific strategies and to allocate resources to Embassies in countries in transition to enable the shift from ODA to the use of new modalities of cooperation focusing on economic cooperation and business partnerships. This will require country specific strategies for transition countries that include allocation of budget and staff to facilitate the establishment of new economic relations, since otherwise phasing out of aid relations might result in a total exit from these countries;

7. The evaluation recommends for the MFA to prepare for comprehensive evaluations of its current private sector development instruments: Finnfund and Finnpartnership. It is recommended that Finnfund, Finnpartnership and MFA improve mutual information exchange on their strategies and activities. MFA should investigate ways for more central steering of the PSD instruments to increase the development relevance of these instruments in long-term Finnish partner countries and to ensure cost-effective and efficient use of embassy’s and Team Finland’s capacity in developing, transition and economic partner countries;

8. The evaluation recommends that the MFA and embassies discuss with AFT implementing partners on how to move away from production-focused projects and to strengthen approaches that focus on market development and international supply chain development;

9. The evaluation recommends that the MFA to improve management and accountability of AFT by further integrating it in the existing management structures with a decision-making mandate;

10. The evaluation recommends that the MFA to focus its support to AFT-related international organisations on improving business enabling environment at the international or regional level and less on funding of projects implemented on the ground in specific partner countries.
# KEY FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

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<td>The AFT-AP is not well known among staff members in MFA departments and at embassy level and it is virtually unknown among external partners. The AFT-AP has remained largely an MFA internal tool mainly focused on upward reporting on AFT interventions. Mainstreaming AFT in programming, monitoring or reporting has not been successful and the amount of information on results obtained from AFT projects is very limited. The AFT-AP objectives and goals and focus areas are rather generic and not specific to contexts and timeframes.</td>
<td>The AFT Action Plan has not sufficiently served as a guiding instrument to MFA and its external partners on the coordination and implementation of AFT priorities. In spite of the limited visibility of the AFT-AP, its objectives, goals and focus areas are generally integrated to development policies and Country Strategies (CSs). Existing and new development policies of the Finnish Government are not yet sufficiently operationalized to ensure that specific AFT approaches, strategies and instruments can be tailored to specific country contexts, ranging from long-term partner countries, countries in transition and eventually trade partner countries.</td>
<td>Integrate AFT into existing and newly developed development policy planning and monitoring mechanisms and improve integration in already existing RBM practices. No new AFT Action Plan beyond 2015 is needed. Different pathways for development and specific theories of change are required for Finnish core partner countries, transition countries and economic or trade partner countries.</td>
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<td>Reporting on AFT interventions on indicators provided in the AFT-AP has improved annually during the implementation period. Response rates by embassies based on the reporting matrix have increased annually, but reporting has been incomplete and the set of indicators in practice proved to be too complex to measure, because most indicators were be interpreted in different ways by different actors in different contexts. Analysis of AFT related reporting has remained limited to only short rather quantitative reporting matrixes.</td>
<td>The AFT-AP was the first thematic plan in Finland’s development policy that followed Results Based Management (RBM) principles and it was highly valued for this by the previous evaluation. However, in practice it has not been used as such. The different interpretations of indicators in rendering monitoring information made it impossible to aggregate monitoring data. As a result, the AFT Action Plan has mainly remained limited to AFT-labelling for OECD and output monitoring, and much less other purposes, such as exchange of information, reflection and learning on effective AFT approaches and instruments.</td>
<td>Continue ongoing efforts to further develop a simple and manageable set of AFT-indicators. It is recommended that hybrid system of central and decentralised indicators is developed, in which the indicator on number of jobs created for men and women by AFT interventions should remain.</td>
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<td>Findings</td>
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<td>Awareness on PSD and AFT at the level of MFA departments and Embassies has improved, largely as a result of emphasis on PSD as a policy priority in the Finnish DPP of 2012 and the FDP of 2016.</td>
<td>PSD and AFT objectives, goals and focus areas are now clearly in country level programming and current CS updates in 2016.</td>
<td>Improved planning and reporting on AFT interventions will also require developing RBM systems and capacity of MFA staff and Embassy personnel to report on AFT specific results frameworks and indicators. Develop practical instructions and checklists on how to integrate AFT into the project cycle, results frameworks, CSs, influencing plans and regular embassy plans.</td>
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<td>Awareness and practical understanding on how to in practice promote AFT objectives, trade relations and business partnerships, is still limited and not reflected in performance assessments and staff profiles of the Embassies.</td>
<td>Insufficient capacity (time, resources) and missing specific AFT and PSD competencies among Embassy staff and unclear task descriptions in AFT and PSD promotion have affected effective promotion and implementation of AFT and PSD objectives.</td>
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<td>Knowledge of reporting requirements and familiarity with the AFT reporting system at the level of embassies is still limited.</td>
<td>The capacities of staff and systems developed in MFA and Embassies are insufficient to deal with specific challenges in transitioning from ODA to economic partnerships and trade promotion.</td>
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<td>Embassies have acquired a key role in supporting the shift from traditional ODA support towards new modes of cooperation in long-term partner countries, in strengthening economic cooperation and trade relations in transition countries and in developing more pro-active and better visible actions within Team Finland.</td>
<td>In addition to staff capacity development on AFT also systems and formats for AFT planning and reporting need to be better explained and rolled out.</td>
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<td>MFA and Embassies have often prioritised working with Government in implementation of AFT interventions in partner countries.</td>
<td>MFA has not yet considered working with the Private Sector as a direct partner in development cooperation, with the exception of a small participation of the Finnish Private Sector as a minority shareholder in Finnfund.</td>
<td>Strengthen private sector involvement and multi-stakeholder participation in AFT planning and implementation. In Finland, MFA should consider to step up its efforts in dialogue with the private sector from consultation to establishing direct partnerships. At the same time, more attention should be given by MFA to multi-stakeholder cooperation in AFT project initiatives. Initiatives that include actions for public-private partnerships and multi-stakeholder cooperation could receive a bonus or extra technical or diplomatic support by MFA.</td>
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<td>Increased attention to private sector involvement in these countries is only recent and focuses on the local private sector.</td>
<td>The CSO and Private Sector perspectives on the new FDP of 2016 are disconnect and at this moment even somewhat in conflict.</td>
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<td>Involvement of Finnish companies has occurred in some projects and is increasingly attempted (in Finnpartnership, but is still largely a parallel process with little exchange and alignment, as could be observed in Finnpartnership and Finnfund activities in evaluation sample countries.)</td>
<td>While public-private partnerships (PPPs) and Multi-stakeholder approaches and partnerships are globally increasingly mainstreamed in development interventions, this is not yet sufficiently recognised in the AFT Action Plan and in Finnish Development Policy documents.</td>
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<td>In Finland, MFA consults with Private Sector and CSO’s on development policies and strategies, but attempts to develop multi-stakeholder approaches and cooperation are still only at an experimental stage</td>
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<td>Findings in country studies and on Finnfund and Finnpartnership clearly show that after an initial push to start up economic business initiatives, there is usually limited, if any, follow-up support to these initiatives. A considerable number of start-ups are supported in case countries, but they have not yet led towards other support modalities or business linkages. This challenge is also identified in support to Finnish SMEs: after initial support of FP to identify business opportunities, limited, if any further support is given to investment opportunities</td>
<td>There is a “missing middle” of support to SME’s in both the Finnish partner countries and in Finland. While Finnfund and Finnvera can provide support to larger investment opportunities, there is no such support facility available for smaller initiatives targeting Finnish SMEs. Experiences from Denmark and the Netherlands have shown that such support can be effective in developing international business relations.</td>
<td>Complement the current portfolio of private sector development instruments with new instruments that focus on SMEs and multi-stakeholder participation to enhance innovation. This requires the development of facilities by MFA that focus on loans and guarantees to SMEs, instead of subsidies.</td>
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<td>The country case studies show that historically phasing out development projects has not been replaced by new initiatives. Reduction of budgets has also caused downsizing of staff of embassies and Finpro to a level where it is possible to administrate (closure of) development projects, but not to invest in economic and trade relations. With phasing out from water and agricultural sector projects, the mix of sectors where Finnish added value and trade between Finland and partner countries is reduced. This limits perspectives for transition to economic and trade relations.</td>
<td>The reduction of Finnish Aid to partner countries was done by terminating projects and phasing out certain sectors, leaving a rather limited mix and portfolio of aid and PSD instruments to allow for phasing in of new initiatives and partnerships to develop and strengthen economic and trade relations. Additionally, the reduction of staff at the embassies further limited the facilitation of building new relations, which is particularly relevant in transition countries. Compared to the reference countries, Denmark and the Netherlands, Finland has not done as well in transitioning from aid to trade.</td>
<td>Develop specific strategies and allocate resources for Embassies in countries in transition to enable the shift from ODA to the use of new modalities of cooperation focusing on economic cooperation and business partnerships. This will require specific country strategies for transition countries that include allocation of budget and staff to facilitate the establishment of new economic relations, since otherwise phasing out of aid relations might result in a total exit from these countries.</td>
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**Findings**

PSD Instruments of FF and FP have only to a very limited extent been linked to other development interventions in the country studies in this evaluation. There is no formal steering of FF on AFT-AP objectives and focus areas; Finnfund operates as an autonomous development finance institution that is only steered on development investments in different income-level countries. Finnpartnership, as a subsidy modality, operates on demand-driven principles. As a result also this facility is only linked to a limited extent to other development interventions of the Finnish Government in partner countries. Portfolios of both FF and FP are very diverse, but they do include the priority sectors of Finland and are quite complementary in Asia, but less so in Africa. Both instruments also operate as stand-alone modalities in Latin America, where there are no possibilities for complementarity with other Finnish aid modalities.

**Conclusions**

In spite of confirming Finnfund’s policy relevance for AFT and PSD and trade development, the case study on Finnfund in this evaluation has remained limited, due to the limited information that could be obtained on specific investments and investee companies. The impact of Finnfund’s investments remained largely outside the scope of this evaluation. The case study on Finnpartnership showed that this instrument, in spite of having supported a considerable number of Finnish SMEs in taking first steps in exploring partnerships and investments in developing countries, has had limited effects and impact on actual investments and trade development between private sector partners in developing countries and in Finland.

The case studies on Finnfund and Finnpartnership show that there is a dilemma and trade-off between central steering of PSD instruments and letting them be demand driven. Currently Finnpartnership and Finnfund are demand-driven and in the case of Finnfund have limited AFT-AP linkages or steering. Lack of central steering and information exchange between MFA departments, embassies and Finnfund and Finnpartnership has limited the complementarity of the PSD instruments with other aid interventions in Finnish partner countries.

**Recommendations**

Prepare for comprehensive evaluations of its current private sector development instruments: Finnfund and Finnpartnership. It is recommended that Finnfund, Finnpartnership and MFA improve mutual information exchange on their strategies and activities. MFA should investigate ways for more central steering of the PSD instruments to increase the development relevance of these instruments in long-term Finnish partner countries and to ensure cost-effective and efficient use of embassy’s and Team Finland’s capacity in developing, transition and economic partner countries.
### Findings

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<td>Many AFT interventions in the country studies focus mainly on production capacity and infrastructure and on environmental protection. Bilateral projects have typically worked with Government and less with private sector actors who are actually integrated into economic relations. Agricultural projects reviewed in the country studies have had limited impact in terms of developing regional and international market access, although sometimes at local level some effects could be seen.</td>
<td>Finland’s AFT projects have been too production orientated to obtain powerful and promising market perspectives and linkages. Different projects have addressed different levels and actors in supply and value chains. The effects have been noticeable at certain levels in the supply chain, but not the supply chain as a whole, particularly not in supply chains in which Finnish companies are involved as lead buyers or investors.</td>
<td>MFA and embassies should discuss with AFT implementing partners to move away from production-focused projects and to strengthen approaches that focus on market development and international supply chain development.</td>
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<td>AFT-labelled interventions are very diverse and were implemented through different functional entities within MFA and Embassies and by a large number of external partners. There was no central coordination of AFT-labelled interventions in Finnish partner countries and generally limited knowledge of what other departments and entities did in the area of AFT. Particularly the Multi-lateral interventions, as well as Finnfund and Finnpartnership supported actions, have remained outside the general scope of AFT interventions.</td>
<td>The organisational set-up of MFA is not supportive of central coordination and guidance of thematic action plans such as the AFT-AP. Coordination, complementarity and synergy of AFT interventions have remained limited, because different projects were implemented through different modalities often managed and implemented by different departments in MFA and by Embassies. The AFT steering committee has not been able to take an effective leadership role in coordinating Finnish AFT during the second action plan period. AFT specific issues have received limited attention in the Development Policy Steering Group.</td>
<td>Improve management and accountability of AFT by further integrating it into the existing management structures with a decision-making mandate.</td>
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<td>Multi-lateral AFT projects with interventions in partner countries have generally not been strongly aligned with other country-level interventions. In the countries studies, the multi-lateral and international AFT projects were not always well linked with other development interventions supported by Finland. Results of these projects were not used in other interventions supported by Finland at the partner country level and sometimes these results were not fully known.</td>
<td>Much of the support provided to multilateral and international organisations focuses on international policy framework development and research activities as well as international systems development. Such projects are complementary to other AFT projects supported by Finland that can benefit from a better trade environment and enabling systems and regulations. The complementarity and synergy of country-level projects of multilateral and international partners with the overall Finnish AFT policy and portfolio in partner countries has remained limited.</td>
<td>Focus MFA support to AFT-related international organisations on improving the business enabling environment at the international or regional level and less on funding projects implemented on the ground in specific partner countries.</td>
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1 INTRODUCTION

1.1 Background to the evaluation

Aid for Trade (AFT) is an initiative that was born from the negotiations of the World Trade Organization’s (WTO) Doha round shortly before the Hong Kong ministerial conference in the autumn of 2005. AFT has since featured on the agenda of almost all the main trade, economic and development conferences.

AFT is a generic term for development cooperation that aims to strengthen developing countries’ productive capacity and ability to engage in foreign trade in order to achieve sustainable economic development and reduce poverty. The scope of AFT was agreed upon by the Organisation for Economic Co-operation and Development (OECD) and its main objective defined as “the private sector creates decent employment and opportunities for entrepreneurship for all”. The OECD tracks AFT aid flows from all its members in its Common Reporting Standard (CRS) editor Rating System. Central to the Aid for Trade Initiative is the notion that trade should be (better) mainstreamed as a priority in development strategies of developing countries with the support of international development partners.

Finland has contributed to the development of the international Aid for Trade initiative by participating in the work of the European Union (EU), OECD, WTO and several United Nations (UN) agencies. Finland’s AFT activities have increased in the recent years in terms of funding and participating in many key multilateral trade and development organisations and programmes and its bilateral cooperation programmes and other aid modalities.

The narrow definition of Aid for Trade is “trade-related (technical) assistance”, which covers trade policy and regulations and trade development. The broad definition includes, in addition to the previous economic infrastructure, building productive capacity and trade-related adjustment. Finland’s AFT policy is based on the broader definition of AFT.

The most recent policy guidelines for AFT in Finland’s development policy are the “Aid for Trade – Finland’s Action Plan 2008−2011” and the Aid for Trade – Finland’s Action Plan 2012−2015 “Creating jobs through private sector and trade development” (AFT action Plan 2012-2015). The first plan was adopted in autumn 2008, and ended in 2011 when Finnish AFT was evaluated for the first time. The evaluation assessed Finland’s AFT cooperation as being positive. However, the Evaluators recommended developing AFT cooperation in a more systematic direction, increasing understanding and knowledge, reducing fragmentation in cooperation and strengthening results-based management and cross-cutting objectives. The second AFT Action Plan (AFT-AP) was built on the recommendations of the evaluation and in line with the 2012 Development Policy Programme (DPP). AFT-AP 2012-2015 thus focuses on two priority areas: (i) an inclusive green economy that promotes employment and (ii) sustainable use of natural resources and environmental protection (MFA 2012a).

According to the 2012 Development Policy Programme, new cooperation modalities that promote development policy objectives and complement other development policy modalities are to be developed together with the private sector. A new cooperation modality; BEAM - Business with Impact – was recently introduced in 2015 as a joint programme of the Finnish Funding Agency for Innovation (TEKES) and the Ministry of Foreign Affairs (MFA). BEAM aims to generate new sustainable businesses in developing countries. The BEAM facility is being evaluated separately. Additionally, Finland is preparing for an updated version of its previous Concessional Credits (CC) instrument and a new Public Sector Investment Facility will be launched in 2016. This facility will allow developing countries’ public sector insti-
tutions to receive a financial subsidy for their projects when procuring products and services from Finnish companies, assuming the projects are in line with the Finnish Development Policy.

MFA has commissioned an external evaluation of “Finnish Aid for Trade 2012–2015” for which the AFT Action Plan (AFT-AP) was the main vehicle for planning, implementation and reporting. Within this evaluation, MFA also requested to include the review of the two private sector development instruments of Finnish development cooperation: Finnfund and Finnpartnership and to provide comparative perspectives of the use of private sector development instruments in Denmark and the Netherlands. These elements are to feed into the Finnish Government’s ambition to increase private sector engagement in international development and economic cooperation.

1.2 Purpose, objective and scope of the evaluation

As per the TOR (MFA 2015) the purpose of the evaluation is to provide evidence-based information on the success of Finland’s AFT and to provide practical guidance on the AFT Action Plan. This information will feed into the next update of the Action Plan on Aid for Trade or related themes or into broader Finnish development policies. The special focus is on how to:

- Improve the results based management approach in AFT programming for management, learning and accountability purposes; and
- How to improve the quality of implementation of Finnish AFT.

The timeframe of this evaluation is 2012–2015, which is the period covered by the AFT-AP. It covers all current implementation modalities of Finnish AFT: bilateral and regional level projects, multilateral organisations, international organisations, EU cooperation, institutional cooperation projects (Institutional Cooperation Instrument – ICI), local projects from Embassy funds (the Local Cooperation Fund – LCF), partnerships with companies, civil society organisations and other actors.

This evaluation assesses Finnish AFT at the policy level by analysing the policy guidance of AFT and at the implementation level by verifying and validating reported results and aggregating them at feasible levels. In the end three main evaluation questions will be answered:

1. Has Finnish AFT succeeded in realizing Finland’s Development Policy Programme 2012 and more specifically its priority areas of “Green Economy” and “Sustainable Management of Natural Resources” and “Environmental Protection”?

2. Has the AFT Action Plan 2012-2015 succeeded in guiding the implementation of Finnish Aid for Trade and how effective has the implementation been?

3. How do the private sector instruments Finnfund and Finnpartnership contribute to the overall Finnish AFT?
This evaluation was conducted by an independent international team, consisting of five international consultants, in the period October 2015 - April 2016. Fieldwork was conducted in three selected country studies, Tanzania, Vietnam and Zambia and on the private sector development instruments Finnfund and Finnpartnership. Additional comparative studies were carried out on Danish and Dutch private sector development policies and instruments.

1.3 Structure of the Evaluation Report

This report has eight chapters and six annexes.

Chapter 2 will present the evaluation approach, methods and instruments. It also presents some limitations and bottlenecks encountered during the evaluation process.

Chapter 3, Context Analysis, will introduce the Finnish Aid for Trade Action Plan. Further contextual information is provided on the international AFT context, international trade flows and on the specific contexts in the country studies in this evaluation. A brief review of the recommendations of the previous AFT evaluation from 2011 is provided, including an assessment of its follow up.

Chapter 4 presents the synthesis of findings from the country studies in Tanzania, Zambia and Vietnam and a comparison with Private Sector Instruments of Denmark and the Netherlands. Annex 6 provides further detail on the comparison.

Chapter 5 presents the main findings and conclusions from the cases studies on Finnfund and Finnpartnership. The more extensive case study reports on these two facilities are provided in Annexes 4 and 5.

Chapter 6 contains an analysis and assessment of the evaluation findings within the framework of the main evaluation criteria that follow the OECD Development Assistance Committee (OECD-DAC) guidelines on evaluation. In addition to these criteria the evaluators also specifically looked at coherence and complementarity aspects (including Finnish added value) and the crosscutting objectives on gender, environment and equality. Finally, attention is paid to the Results Based Management (RBM) aspects emerging from the evaluation.

The conclusions (chapter 6) and recommendations (chapter 7) result directly from the findings, analysis and assessment. These conclusions and recommendations are numbered for ease of reference and linkages.
2 APPROACH, METHODOLOGY AND LIMITATIONS

2.1 Evaluation Approach

2.1.1 Overall evaluation design and approach

This evaluation took a three pronged approach to the research on Finland’s Aid for Trade 2012-2015: firstly analysing the development policy guidance of AFT and its consistency with the Action Plan and its guiding policies; secondly analysing the implementation of the Action Plan and its different implementation modalities, including three country studies; and thirdly producing case studies on two private sector instruments of the Ministry for Foreign Affairs of Finland, namely Finnfund and Finnpartnership. The evaluation methodology applied OECD/DAC criteria and the MFA Evaluation Manual, assessing the relevance, effectiveness, efficiency, sustainability and impact of Finland’s AFT as well as issues of complementarity (Finnish value added) and synergy, adherence to crosscutting objectives and the application of Result Based Management (RBM) principles.

The AFT Action Plan has been implemented through a variety of instruments and modalities and has been dependent on a range of partnerships at different levels. Accordingly, there was a need for evaluation methods and instruments tailored for these different levels. In the case of country level projects and direct partnerships of the Finnish Government, the evaluation draws on investigation and interviews carried out at the implementation level as well as the document review of previous MTR and Evaluation reports of AFT related implemented projects. As a result, contribution analysis of Finnish AFT is possible. In cases where Finnish support is channelled through multilateral, EU and regional level projects, modalities or funds, attribution of results and impact at country and sector level is clearly more challenging, because there is no direct result-chain that can be analysed from the AFT AP to multilateral and international interventions.

A number of actions under the AFT AP are implemented through Finnish private sector operators and their activities in developing countries. Assessing results and impacts obtained through these direct private-private relations between Finland and developing countries required involving private sector partners in the evaluation exercise through interviews, document review and surveys. These fed into the Finnfund and Finnpartnership case studies conducted separately. Although Finnpartnership is administered by Finnfund,
they are separate and distinct instruments requiring independent analysis. The case studies assessed the contribution of these instruments to Finland’s Development Policy and the AFT Action Plan, their operational and legal frameworks, results achieved and impact of these instruments. In the overall evaluation study, findings from the case studies were integrated into the overall findings, conclusions and recommendations.

2.1.2 Theory of change

This Evaluation was carried out as a theory of change (TOC) evaluation, at both policy and implementation level. As such, the evaluation is an investigation of the AFT policy framework and its implementation, AFT programmes/projects within their external environments and the links between AFT objectives and the external policy environment. The research was done through mapping and analysing causal chains from inputs to outcomes in the AFT Theory of Change and results framework, and making assumptions explicit in order to test them.

A TOC model of the AFT Action Plan was reconstructed and is presented in the description of the AFT action in section 3.2.2. Its purpose is to describe the interaction between the elements in the Action Plan and to detect the dynamics in result chains.

Several studies (OECD 2011) have pointed out that evaluating AFT initiatives is problematic given their wide remits that do not enable the uses of counterfactuals, and the fact that their impact on poverty can be far down a logical chain of proof. Finland’s AFT Action Plan includes different support modalities of AFT and different levels of partnerships (direct partnerships, national, regional, multilateral). It was implemented worldwide in quite different partner countries with diverse institutional settings and policy contexts. The TOC is a theoretical construct and it refers to no country in particular.

Comparison to other aid for trade programmes is difficult, as Finland was unique in merging market development with sustainable resource management. In addition, it brings in elements of a rights-based approach, and includes technical and vocational skills development. However, there are some countries with approaches somewhat similar to Finland, such as Norway, Denmark and the Netherlands. AFT and Private Sector Development programmes of the latter two countries were included as comparative references in this evaluation process, but due to different contexts, no attempt for a benchmarking analysis was made.

2.1.3 Evaluation questions, criteria and evaluation matrix

The evaluation uses a set of evaluation questions (EQ) set in the TOR (MFA 2015), reflecting the objectives set in the AFT Action Plan 2012–2015 and guided by the OECD/DAC evaluation criteria. The three main evaluation questions are:

1. Has Finnish AFT succeeded in realizing Finland’s Development Policy Programme 2012 and more specifically its priority areas of an “Inclusive Green Economy that Promotes Employment” and the “Sustainable Management of Natural Resources and Environmental Protection”?

Comparison to other aid for trade programmes is difficult, as Finland was unique in merging market development with sustainable resource management.
2. Has the AFT Action Plan 2012-2015 succeeded in guiding the implementation of Finnish Aid for Trade and how effective has the implementation been?

3. How do the private sector instruments Finnfund and Finnpartnership contribute to the overall Finnish AFT?

In response to these EQs this evaluation has approached the analysis through three areas of interest:

1. Analysis of the development policy guidance of AFT and the consistency of the Action Plan (AP) with its guiding policies, including the consistency of Finnish AFT with needs and priorities of stakeholders including final beneficiaries in recipient countries. Assessment of how AFT is positioned in the MFA organisation and the extent to which the Action Plan contributes to RBM in the MFA. Assessing the applicability of strategic choices made in the Action Plan and the suitability of this approach to other activities.

2. Assessment of how different implementation modalities have contributed to the Development Policy Programme (DPP) of 2012 and its follow up Finnish Development Policy (FDP) of 2016 (MFA 2016) and the AFT Action Plan (AFT-AP) 2012-2015, taking into account the special features and administrative structures of different modalities. This was done through assessing:
   • Achievement of objectives and goals outlined in the Action Plan;
   • Reported results and aggregation of these results at a global level;
   • Nature of results that were reported and how they have been calculated;
   • Possible gaps in reporting and reasons for insufficient reporting;
   • The extent to which crosscutting objectives and human rights based approach are achieved in AFT implementation;
   • Complementarity between AFT and other sectors and themes as well as the synergies between different AFT implementation modalities;
   • The extent to which recommendations of the previous evaluation were taken into consideration when preparing the current AFT Action Plan.

3. Two comparative country studies into the private sector engagement instruments of the MFA, namely Finnfund and Finnpartnership. These studies provide an analysis of the how these instruments contribute to achievement of objectives of the DPP (2012), FDP (2016) and AFT-AP, identify gaps and assess the compatibility of private sector instruments with the Action Plan and its result framework taking into account the special features of these instruments, their administrative structures and their other obligations. These two comparative country studies include benchmarking with comparative instruments in The Netherlands and Denmark.
An evaluation matrix was prepared combining policy and implementation level questions to ensure compatibility across the analysis. The matrix provides the main evaluation questions and sub-questions, the judgement criteria for findings and key information sources against the questions. The evaluation matrix was used in preparing the evaluators’ assessment of all evaluation criteria.

The Finnfund and Finnpartnership case studies are of central importance to the evaluation, because they contain a specific assessment of these AFT modalities while providing inputs to the overall AFT evaluation. The country studies have a dual focus. First, assessing the quality of AFT by investigating the results and effects of interventions in AFT results chains in comparison to planned objectives and focus themes, using the evaluation criteria. Secondly, assessing the institutional structures and processes that manage the AFT programme and their contribution to the quality of interventions. In the case studies and country studies, the same evaluation matrix was utilised, although it was more focused through the use of specific questions tailored to specific country contexts.

2.2 Methodology and steps in data collection and analysis

The Theory of Change model and the evaluation matrix provided a systematic framework for the collection and interpretation of research data. The evaluation used a mixed-methods data collection toolbox that draws on a range of qualitative (semi-structured interviews, participatory interest group discussions, web-based surveys, contextual analysis and desk study) and quantitative (analysis of trade statistics, financial analysis, word frequency count on AFT items in relevant meetings of quality assurance board (QAB), Development Policy Steering Group (DPSG) and Development Policy Committee (DPC)) methods to draw sufficient data for triangulation and to establish a solid evidence-basis. A meta-review of existing evaluation reports on Finland’s trade-related development cooperation projects and activities in 2012-2015 was carried out in the country studies and a limited number of relevant policy and strategy evaluations on Finnish development aid in general and AFT more specifically.

A number of qualitative analysis methods, such as strategy analysis, context analysis and theory of change analysis were already conducted to a large extent during the inception phase, and results were translated into research hypotheses that were subsequently further investigated during the field study phase. Through triangulation of methods and data sources robust evidence was collected to assess the quality of the Finnish AFT strategy and its implementation.

During the inception period the evaluation team prioritised the collection and study of existing documentary data sources – quantitative and qualitative, primary and secondary, published and unpublished, internal to MFA and external. This process of studying existing data sources continued throughout the whole evaluation period to further back up findings and conclusions.

The most important sources of information were provided by MFA and included the AFT Action Plan; Country Strategies; annual and seminal annual Country Strategy reports and their management responses; key project documents (log-
ical framework, indicators, monitoring reports, memos, meetings notes etc.) and their annual progress and completion reports; country consultation minutes; and mid-term and evaluation reports.

Other important data sources included:

- OECD data on AFT and ODA;
- ITC data on international trade flows;
- Documentation on Private Sector Instruments in Denmark and the Netherlands;
- Reference documents of international organisations;
- Websites of Finnpartnership, Finnfund and many other specific AFT project implementing organisations.

The fieldwork and data gathering phase included the continuation of a variety of desk studies. Three field visits were made: to Zambia (6-19 December 2015), Vietnam (10-23 January 2016) and Tanzania (8-20 February 2016). Additional interview rounds were organised with key stakeholders in Helsinki, multilateral representatives of international trade related organisations in Switzerland and Austria; and in Denmark and the Netherlands on their portfolio of private sector instruments. A comprehensive list of interviewees is provided in Annex 2.

The methodology for the three country visits included site visits as well as a mix of individual and focus group discussions. Field methods included:

- **Interviews with key stakeholders:** Embassy representatives; Recipient country Government representatives; National level stakeholders; International development partners; AFT bilateral project stakeholders and if applicable national level stakeholders in regional AFT projects; Finnfund local investment partners (private sector stakeholders); Finnpartnership local beneficiaries (private sector stakeholders); Stakeholders and counterparts in LCF and ICI projects; Stakeholders and counterparts in relevant NGO supported AFT initiatives

- **Site visits.** At the country level the evaluation teams carried out site visits to specific interventions to observe projects and programmes and meet stakeholders/beneficiaries in situ. The evaluation is carried out in participatory manner, meaning targeted stakeholders/beneficiary interviews at the global and particularly at the country level. Special attention was paid to also securing views from easily marginalised stakeholders.

- **Debriefing/Validation Workshop:** Each country visit ended with a debriefing and validation workshop in which the evaluators presented the preliminary findings and conclusions for discussion and debate.

The identification of interviewees was based on the preliminary analysis of the AFT portfolio at the global level and at the level of the three country studies. Key stakeholders interviewed at the country level are included in Annex 2.

At the policy and global level, the team conducted interviews with MFA representatives, Private Sector Representative Bodies and Trade Unions and selected Civil Society representatives in Finland, Partner Governments, Internation-
al Development Partners, Multilateral Organisations and EU representatives in sample countries. They interviewed MFA senior management and other MFA staff members, to better understand the exact objectives of AFT within the broader effort to deepen RBM in the MFA and to gain perspectives on the effectiveness of AFT and on success factors and challenges in its implementation. The members of the evaluation reference group, AFT Steering Group, regional departments and specialized units and executives were also interviewed by the evaluation team.

The case studies on Finnfund and Finnpartnership relied on a mixed method approach that included an extensive document review and interviews with the key stakeholders in Finland and in the country studies. Additionally, an analysis was made of the Finnfund investment portfolio. In the case of Finnpartnership, the team analysed project summaries and monitoring reports of companies that received Finnpartnership funding as well as the companies that were registered under the Match Making Facility on the Finnpartnership Website. The evaluation team developed and carried out a survey for both case studies in order to gather data from Finnish companies.

The evaluation team carried out a comparative data analysis of private sector instruments in The Netherlands and Denmark including interviews with key representatives.

Prior to the submission of a first draft evaluation report a global debriefing and validation workshop was arranged by MFA and the evaluation team in Helsinki on March 30, 2016. In connection with this workshop, a limited number of final interviews with Finnish key informants were carried out by the evaluators in order to clarify elements in the research, on which after the initial field and desk-study phase, some question marks still remained.

The evaluation report was submitted in two rounds. The draft evaluation report was submitted for feedback from the reference group on April 15, 2016. The final report is the result of the processing of the received feedback and comments of the key stakeholders in the AFT evaluation process.
2.3 Risks in evaluation process and their Mitigation

Table 1: Risks analysis and mitigating action

<table>
<thead>
<tr>
<th>Risks in evaluation process</th>
<th>Mitigation measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Limited availability of secondary data for some AFT related activities</td>
<td>Early enquiries were made with MFA about data accessibility. Data triangulated to the extent possible with other data sources.</td>
</tr>
<tr>
<td>Survey responses might be insufficient to guarantee sufficient representativeness of respondents</td>
<td>In order to attract the maximum number of responses the surveys were targeted and concise. The surveys collected basic background data on respondents to monitor response coverage, while securing anonymity of the respondents.</td>
</tr>
<tr>
<td>Staff turnover limits primary data collection</td>
<td>Early enquiries with MFA were made about contacting staff that have moved on; findings were triangulated with a range of key informants. Country briefing notes were prepared for embassies to assist in preparing for the field visits</td>
</tr>
<tr>
<td>Attributing results and impacts vis-à-vis other development partners</td>
<td>In order to establish the relations of attribution and contribution to results and impact, company, project and sector specific results were looked at separately from results obtained at the national level or in sectors where multiple development partners provided support.</td>
</tr>
<tr>
<td>Attributing results and impacts vis-à-vis general economic development trends</td>
<td>This evaluation covered a time frame with very volatile economic developments in the global economy. Results obtained at national level were assessed against general economic trends in the country/sector and conclusions have included conditions that have either hindered or boosted achievements of AFT interventions.</td>
</tr>
<tr>
<td>Some projects started with considerable delay, thus making them difficult to evaluate at the outcome and impact level and on sustainability aspects</td>
<td>As projects could only be looked at until mid-2015, in some cases the evaluators had to resort to analysis of perspectives for impact and sustainability instead of analysis of real impacts. Additionally, it is stressed that this evaluation is not a project evaluation, but a policy evaluation. Thus analysis of impact at the project level was not done systematically although a meta-analysis of other evaluations (including impact evaluations) was carried out.</td>
</tr>
<tr>
<td>Limited availability of reporting on projects and facilities in English</td>
<td>Finnish participation in the evaluation team and allocation of time for translations were increased.</td>
</tr>
<tr>
<td>Limited willingness of Dutch and Danish Governments to share information on their PSD instruments and policies</td>
<td>Briefing notes for embassies and introduction letters were prepared. No problems were encountered. In the case of the Netherlands the written information available was already very comprehensive.</td>
</tr>
<tr>
<td>Fragmented and possibly incomplete financial data on Finnish AFT</td>
<td>A preliminary analysis of financial data from MFA and OECD on Finnish aid showed that expenditure information was not fully coherent, because internally AFT projects are labelled under several Common Reporting Standards (CRS) codes of OECD, while only one code is used for OECD reporting. At the same time LCF and ICI projects at the country level are not always tagged as AFT projects while in practice they are. This could be related with the fact that projects were coded with more than one code, but that the first code was not an AFT label and as a result the project is not registered in the OECD CRS system. Therefore, a pragmatic approach was chosen and sometimes projects that were clearly relevant for AFT even if not registered as such in the CRS system were also studied.</td>
</tr>
</tbody>
</table>
### Risks in evaluation process

<table>
<thead>
<tr>
<th>Risks in evaluation process</th>
<th>Mitigation measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>The time-frame of the AFT action plan 2012-2015 and approval dates of projects do not fully match, causing confusion on the portfolio of projects and investments to be analysed in this evaluation.</td>
<td>This issue was discussed with EVA-11 on December 2, 2015 and it led to the following amendment on the time-period for this evaluation. The AFT evaluation looks at all AFT interventions and projects that have been active in the period 2012-2015, while they might have been approved prior to this period. This principle is applied for all MFA and Embassy funded projects, as well as for Finnfund’s investments and Finnpartnership project support.</td>
</tr>
<tr>
<td>A considerable part of the Finnfund portfolio consists of national, regional and global (private equity) funds and it is impossible to analyse how regional and global funds have contributed to specific AFT impact in specific countries and it will be difficult to do this at the national level.</td>
<td>In case information on the funds cannot be analysed at the country level, the evaluators will pay attention to the global and regional funds only in the general portfolio analysis of Finnfund. Additionally, the evaluators have resorted to a more general analysis of Finnfund’s investment portfolio and a survey and interviews with Finnish companies involved. Only five investment funds or projects were analysed at country level.</td>
</tr>
</tbody>
</table>

Two risks were identified during the inception phase and could not be fully mitigated:

<table>
<thead>
<tr>
<th>Risks in evaluation process</th>
<th>Mitigation measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Limited access to information on Finnfund’s investments and investment partners, because of confidentiality issues and late agreement between evaluation team and Finnfund about methods and tools for data collection on Finnfund.</td>
<td>Several meetings with Finnfund and with EVA-11 were held on this issue. A late agreement was reached between EVA-11, the evaluation team and Finnfund to conduct the case study within given limitations of confidentiality of Finnfund’s investment activities. Due to delays in discussions and the final agreement on sharing of information on investments and investment partners, research on Finnfund had to be conducted under considerable stress. Also access to data on investments was difficult, because of the confidentiality issues mentioned above. Records could only be viewed at the Finnfund premises and under scrutiny of Finnfund officers. Part of this information was only available in Finnish and this did not allow full insight of the international team members to data at the specific investments level, though a general understanding of the overall portfolio could be obtained.</td>
</tr>
<tr>
<td>The number of country studies covered in this evaluation process is limited and this also limits the universal application of all findings and conclusions.</td>
<td>This limitation is recognised in the presentation of the conclusions of this evaluation. It is also explained that the country studies are quite representative for Finnish development cooperation, although the context of conflict and post-conflict countries is excluded. At the policy and RBM level, the research is sufficiently representative to draw wider applicable conclusions. Finally the case studies on Finnpartnership and Finnfund are also based on broader research, but in these cases the analysis of effects and impact on the ground is limited to the country studies.</td>
</tr>
</tbody>
</table>
3 CONTEXT ANALYSIS

3.1 Global context

The Aid for Trade (AFT) initiative, launched at the Sixth World Trade Organization (WTO) Ministerial Conference in Hong Kong in 2005, aims to support developing countries in realising potential welfare gains from trade liberalisation and to compensate them for disadvantages arising from the implementation of trade agreements. The AFT initiative has led to reorientation of development cooperation towards trade, and AFT disbursements have gradually increased over the past decade, as is shown in the figure below (Figure 1).

Figure 1: Development of AFT disbursements 2006-2013 and effects on growth rates

USD 25-30 billion have been disbursed for financing AFT since the initiative was launched in 2006. Nearly USD 38 billion was on average spent annually during the period of 2009-13. In 2013 the total disbursed amount for AFT was USD 41.6 billion showing an increment of 42.3% of AFT since 2009 (USD 29.1 billion).

It is estimated that annually at the global level around USD 25-30 billion has been disbursed for financing AFT since the initiative was launched in 2006. Nearly USD 38 billion was on average spent annually during the period of 2009-13. In 2013 the total disbursed amount for AFT was USD 41.6 billion showing an increment of 42.3% of AFT since 2009 (USD 29.1 billion).

AFT is broad in scope and forms an integral part of a wide variety of regular Official Development Assistance (ODA) programmes of many donor countries worldwide. The WTO has expanded the scope of the AFT initiative to other areas such as trade facilitation (a new agreement), Sanitary and Phyto-Sanitary Standards (SPS), Technical Barriers to Trade (TBT), rules of origin, value chain development and others.
The size of AFT projects varied from country to country but are on average between USD 0.5-1 million. Most of AFT (66-75%) is provided by bilateral development partners under the form of bilateral agreements and the remaining by international organisations or multilateral donors. Middle-income countries receive twice as much AFT than low-income countries (LIC or LDC). The latter receive most of the support under the form of grants (65%) while the former mostly as concessional loans (65%). Asian (38.4%) and African (35.1%) countries received around 73.5% of the total AFT. Around 78% of AFT is channelled into four sectors: transport and storage (29%), energy generation and supply (21%), agriculture (18%) and banking and financial services (10%). In addition to the total AFT, there is around USD 190.4 billion of Other Official Funds (OOF). These funds do not meet the conditions of Official Development Assistance (ODA) eligibility, i.e. they are not destined for development and less than 25% of the amount is in grant form (OECD/WTO 2015). Most of these funds (80%) come from financial institutions in the form of non-concessional funding, supporting projects in building production capacities (52%) and economic infrastructure (47%), mainly in middle-income countries (92%) in Asia (38%), Africa and Latin America.

The table below shows the main disbursements of AFT in 2009-2013 (Table 1). Most projects were financed in the Economic Infrastructure and Building Productive Capacity category, under which transport and agriculture received priority attention.

**Table 2: Aid for Trade by category (main disbursements in million USD)**

<table>
<thead>
<tr>
<th>Category</th>
<th>2009-2011 average</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Economic Infrastructure</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transport and Storage</td>
<td>16917</td>
<td>20990</td>
<td>22708</td>
</tr>
<tr>
<td>Energy generation and supply</td>
<td>6796</td>
<td>8761</td>
<td>8737</td>
</tr>
<tr>
<td>Communications</td>
<td>606</td>
<td>620</td>
<td>880</td>
</tr>
<tr>
<td><strong>Building Productive Capacity</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agriculture</td>
<td>6507</td>
<td>6200</td>
<td>6662</td>
</tr>
<tr>
<td>Banking and Financial Services</td>
<td>3539</td>
<td>4075</td>
<td>4128</td>
</tr>
<tr>
<td>Business &amp; Other Services</td>
<td>1639</td>
<td>1590</td>
<td>1714</td>
</tr>
<tr>
<td>Industry</td>
<td>1793</td>
<td>2505</td>
<td>1594</td>
</tr>
<tr>
<td>Mineral Resources and Mining</td>
<td>301</td>
<td>493</td>
<td>1517</td>
</tr>
<tr>
<td><strong>Trade Policy and regulations</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade Policy &amp; Adm. Management</td>
<td>581</td>
<td>650</td>
<td>545</td>
</tr>
<tr>
<td>Trade Facilitation</td>
<td>248</td>
<td>245</td>
<td>565</td>
</tr>
<tr>
<td>Regional Trade Agreements</td>
<td>144</td>
<td>145</td>
<td>191</td>
</tr>
</tbody>
</table>

Most LDCs – notably in Sub-Saharan Africa – have, in spite of economic growth, failed to substantially increase their share in the world economy (WTO 2014), and trade gains remained limited to a number of commodities and traditional export products. AFT to the LDCs has not sufficiently enabled LDCs to diversify their production base and trade and it has not enabled these countries to add value through processing and manufacturing. Most LDCs have remained largely commodity-based economies, often depending on one or a few export products.

Since the launching of the Aid for Trade Initiative in 2006, much has changed in the trade and development landscape. According to OECD-Principal, Lammersen (OECD & WTO, 2015), the focus of interventions has shifted from (national) countries to firms and (international) value chains; from industries to tasks and business functions; from stocks to flows; and from public to private trade barriers. The development paradigm is also changing with the next generation of Sustainable Development Goals (SDGs) encouraging the transformation of natural resource-dependent growth patterns into more inclusive and sustainable ones.

At the end of 2015, the Conference of the Parties to the UN Framework Convention on Climate Change (COP21) agreed to putting the world on track to a low-carbon, sustainable future. The Tenth WTO Ministerial Conference in Kenya in December 2015 produced recommendations on how trade can contribute to these agendas and how AFT can facilitate this. Given current international market trends and demands from developing countries, sectors and themes such as transport, energy generation, agriculture, trade facilitation, SPS measures, TBT standards, environment and product quality standards, value chain development and ICT will likely remain among priority sectors in international AFT.

The new development paradigm under the 2030-Agenda requires an integrated approach to ensure that AFT leads to inclusive and sustainable development outcomes. A recent OECD paper (Lammersen F. and Roberts M, 2015, pp. 19-21) proposes that the AFT Initiative could focus on promoting connectivity, boosting sustainable investment, promoting green growth, and supporting the achievement of the Sustainable Development Goals. The paper suggests that these aims can best be achieved through regional approaches for tackling trade-related binding constraints with development finance from a combination of different sources, including providers of South-South cooperation and with more direct engagement of the private sector. The joint OECD-WTO report, Aid for Trade at a Glance 2015 (OECD/WTO 2015) calls for a redoubling of efforts to tackle the issue of trade costs, which continues to marginalise many of the world’s poorest and most fragile economies.

An integrated approach is needed to ensure that AFT leads to inclusive and sustainable development outcomes.

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1 The WTO Secretariat presented to the sub-committee its annual report on LDCs’ market access (WT/COMTD/LDC/W/59). The report notes that in 2013 the total value of LDC exports of goods and commercial services grew by 5.2%, more than twice the world average (2.5%). However, the total share of LDC trade still remains marginal at around 1.23% of the world’s total.
General evidence on impact of Aid for Trade

The Aid for Trade at a Glance Report states that “there is now ample empirical evidence suggesting that aid for trade is broadly correlated with increases in trade. Furthermore, it is now widely accepted that trade generates economic growth which - depending on its pace and patterns - reduces poverty. Empirical evidence is supported by anecdotal findings from a large number of case stories submitted in the context of the 2011 and 2015 monitoring exercises. The sheer quantity of activities reported by the public and private sector suggest that AFT efforts are substantial, that they have taken root across a wide spectrum of countries, and that they are becoming central to development strategies. In addition, the AFT Initiative has proven to be flexible in addressing a broad set of issues on the evolving trade and development agendas but also to engage a broad community including providers of south-south co-operation, the private sector and civil society” (OECD / WTO 2015, p. 273).

The WTO Global Reviews of Aid for Trade, together with the joint OECD/WTO Aid for Trade at a Glance monitoring reports show that Aid for Trade has generally been effective at both the micro and macro level according to a broad range of trade and development literature. More specifically, OECD research found that one extra dollar invested in Aid for Trade generates nearly eight additional dollars of exports from all developing countries – and twenty dollars for the poorest countries.

Martuscelli and Winters (2014), on the basis of a literature review, conclude that trade liberalisation generally boosts income, thus contributing to poverty reduction. They also find that female workers gain from trade liberalisation. All this, however, will depend of various factors such macroeconomic stability, institutional quality, education, application of the rule of law amongst others. Countries with unclear investment conditions, rigid labour markets and lack of respect for property rights will likely benefit less from trade liberalization. De Melo and Wagner (2014) confirm these findings and show that aid for trade has also helped reduce poverty through other channels.

A Dutch evaluation study on the effects of Aid on Trade went a step further and concluded that results are not only noticeable on trade capacity of recipient countries. There are also noticeable effects for the AFT providing country. The effects of AFT for the Netherlands have also been substantial. Each euro of Dutch bilateral aid produces a EUR 0.70-0.90 return in terms of increased exports, leading to a value added for the Dutch economy of about EUR 0.40-0.55 for each euro spent. This corresponds to total exports of about EUR 1.5 billion, a value added of EUR 900 million and 15,000 jobs. (IOB 2014, page 3).

Effects of AFT can also be observed at a more specific sector level. For example, targeted aid to building productive capacities in agriculture and insurance schemes to remove risks can raise the productivity of households close to the poverty line (Winters A.L and Martuscelli A 2014, De Melo and Wagner L 2014). These empirical findings are illustrated by the results reported in 111 case stories that the public and the private sector submitted in the context of the 2015 OECD/WTO monitoring exercise (Figure 2).
3.2 AFT in Finland’s Development Cooperation

3.2.1 Policy context

Finland has taken part in the AFT initiative since the concept was launched in 2005. Finland produced its first Aid for Trade Action Plan for the period 2008-2011, in order to provide guidance for AFT interventions.

Policy framework. The Development Policy Programme (DPP) of 2012 continued Finland’s long-term commitment to human rights and societal equity as an anchor to development in all countries. It had four priority areas: a democratic and accountable society that promotes human rights; an inclusive green economy that promotes employment; sustainable management of natural resources and environmental protection; and human development. Crosscutting objectives (CCOs) were (i) Gender equality; (2) Reduction of inequality and (3) Climate sustainability. These crosscutting objectives were to be integrated in all development cooperation interventions, including in AFT interventions (MFA 2012b).

Finland’s Aid for Trade works in accordance with the same overall objectives and principles as the rest of development cooperation. During the evaluation period the policy framework for AFT was Finland’s Development Policy Program and Government’s Action Plan on External Economic Relations (Government resolution 16.5.2012). Parallel to the DPP of 2012, the second action plan for Aid for Trade covering the period 2012-2015 was launched. It was aligned with the DPP under the pillars “inclusive green economy that promotes employment” and “Sustainable use of natural resources and environmental protection”. The new AFT Action Plan also had additional specific objectives and focus areas (see also section 3.2.2).

Disbursements. Finland, over the past decade, has more than doubled its AFT, from an average of EUR 68.8 million per year in 2006-2008 to around EUR
152.7 million per year in 2013 (Figure 3). A significant part of Finnish AFT concentrated on 15 core partner countries; among them Zambia, Tanzania, Kenya and Vietnam, South of Sahara and Africa as region, as well as Latin American and Asian regions. In the 2012 DPP and the second AFT AP period, the focus was narrowed to seven core partner countries and the Central Asian region (Kyrgyzstan and Tajikistan), while support to Latin American countries was phased out.

**Figure 3: Development AFT Expenditures 2006-2014 (EUR million)**

**ATF disbursements in Finnish Aid for Trade**

Most of the disbursed Finnish AFT grants go to LDCs (EUR 47.4 million in 2013) and other low-income countries (EUR 9.5 million). By category, most of AFT is disbursed to Building Productive Capacity (EUR 111.1 million) and particularly to forestry and agriculture, followed by economic infrastructure (EUR 35.4 million). Support to trade policies and regulations has annually been around EUR 6–7.7 million since 2006–08.

The figure below presents the development of Finnish AFT commitments and expenditures during the second AFT action plan period.
**Action Plan for Aid for Trade 2012-2015** became the first thematic action plan that incorporated Result Based Management (RBM) principles.

AFT commitments and particularly expenditures labelled as AFT further increased in 2014 and this was particularly so for expenditures labelled as Aid for Trade (Figure 4). In the period 2012 to 2014, AFT labelled expenditures were consistently higher than commitments during the same period.

**Result-based Management.** The 2012 DPP set the objective of improving results-based management in Finland’s development cooperation, including the requirement for results-oriented country programming (MFA 2012b). The Second Action Plan for Aid for Trade 2012-2015 became the first thematic action plan that incorporated Result Based Management (RBM) principles. Adhering to these principles and RBM reporting mechanisms, the AFT-AP included objectives, indicators and reporting instructions in order to enable effective results-based planning and management of country interventions. Simultaneously, it contained instructions for management of AFT at the MFA level and for the establishment of the steering committee for the AFT-AP. The intention was to strike a balance between accountability and learning on AFT. The AFT Action Plan became a pilot within a larger RBM framework in the MFA.

Country Strategies (CSs) are a key management tool in the RBM chain, initiated by Embassies in long-term partner countries. Country strategies and their reporting are to also reflect AFT objectives, goals and indicators. In the countries, which are not long-term partner countries, Embassies prepare annual work plans and reports.
When AFT labelled support is provided to multilateral partners, these partners are also subjected to RBM reporting and the provision of information on the indicators in the AFT action plan. This is stipulated in the influencing plans for multilateral organisations that receive AFT labelled funding.

### 3.2.2 Aid for Trade Action Plan 2012–2015

Finland’s current Aid for Trade Action Plan, titled “Creating jobs through private sector and trade development”, covers the period 2012 to 2015 (MFA 2012a). The main objective of the AFT-AP is:

“The private sector creates decent employment and opportunities for entrepreneurship for all”.

Four goals (outcome areas) are derived from this overall objective:

1. A sound business enabling environment promotes private sector activity;
2. Developing countries benefit from international trade and investment;
3. Economic activity is based on the sustainable use of natural resources; and
4. People’s skills and knowledge produce innovative economic activity.

Under these four goals, the action plan identifies eight main focus areas:

1. **Inclusive business**: engage poor and easily marginalised people as producers, consumers, innovators and equal partners in business processes. This type of inclusive business improves the employment and incomes of poor and easily marginalised people and helps develop solutions to reduce poverty and respond to other development challenges;

2. **Women’s entrepreneurship** as a vehicle for making a living, economic empowerment and equality;

3. **Strengthening the capacity of the poorest developing countries to benefit from the international trading and investment system.** Finland strengthens these countries’ ability to recognise key challenges related to trade development and to negotiate, enforce and take advantage of international trade agreements and private standards that complement public policy. Finland promotes sustainable private investment by supporting business and investment climate reforms at a local, national, regional and international level.

4. **Regional cross-border trade**: supporting the opportunities of microenterprises, small traders, and households and women entrepreneurs to benefit from cross-border trade. Regional cross-border trade is often the first step in the internationalisation of small enterprises. Regional cross-border trade also contributes to regional cooperation, integration and stability.

5. **Agricultural and forestry value chains**: enabling poor people, women farmers and young people to plan for a future in agriculture and benefit from it. This promotes the vertical development of production
from the raw materials to the product or service ready for the market. It also promotes the horizontal expansion of the economy into new producer and customer segments and to diversification into new business areas.

3.2 **Renewable energy**: Strengthening the development of renewable energy production and distribution, together with the development of environmental protection objectives to make the transition to a greener economy. The aim is to increase both trade and economic opportunities and equitable access to energy for all people.

4.1 **Use of information technology for innovative economic activity**: Examples are: mobile banking, micro-work and electronic market information that benefits small farmers and traders.

4.2 **Youth Employment**: This focus theme will combine youth entrepreneurship development, business development services for young entrepreneurs, vocational skills development and creating innovations.

Finland did not define a specific geographical focus or quantitative commitments for Trade Related Adjustments (TRA) or AFT for 2012-2015. This reflects the international trend of moving away from an emphasis on quantitative AFT commitments towards an in-depth discussion of its quality, including its impacts. This development is also reflected in the prominent role of monitoring and evaluation in the current Finnish approach.

**Theory of Change of the AFT Action Plan**

The evaluators, based on the Action Plan, have reconstructed a Theory of Change (ToC) that captures and summarizes the main strategic action lines in Finnish Aid for Trade. The ToC does not bring in new relations and aspects, but merely reorganises existing elements in the plan into a coherent model (Figure 5).

**Figure 5**: Reconstructed Theory of Change model Finland’s AFT Action Plan 2012–2015 (on next page)
<table>
<thead>
<tr>
<th>Impact</th>
<th>Eradication of extreme poverty and securing a life of human dignity for all in accordance with the MDGs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term Outcome</td>
<td>An inclusive green economy that promotes employment Sustainable management of natural resources and environmental protection</td>
</tr>
<tr>
<td>Assumptions</td>
<td>Exports from and investments in Finnish partner countries increase in volume and value</td>
</tr>
<tr>
<td>Short-term Outcome</td>
<td>The private sector creates decent employment and opportunities for entrepreneurship for all</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Indicators</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. New enterprises start-up</td>
<td>3. Ratio agricultural &amp; forestry production rises in relation to land used</td>
<td>2.a. Net export revenues rise / 2.b. FDI rises</td>
</tr>
<tr>
<td>1.1. LDCs benefit from more micro- and small business</td>
<td>3.1. Stronger Agriculture &amp; forestry value chains</td>
<td>2.1. LDCs more capable to benefit from international trade &amp; investments</td>
</tr>
<tr>
<td>1.2. More women start own enterprises.</td>
<td>3.2. More enterprises use sustainable energy</td>
<td>2.2. Regional cross-border trade flows faster.</td>
</tr>
<tr>
<td>Outputs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sound business enabling environment promotes PS activity (Goal 1)</td>
<td>Economic activity based on sustainable use of natural resources. (Goal 3)</td>
<td>Developing countries benefit from international trade &amp; investment. (Goal 2)</td>
</tr>
<tr>
<td>Assumption following issues are addressed:</td>
<td>- Gender equality &amp; status of women - Inequality - Women employment &amp; entrepreneurship - Poor participation &amp; benefit from growth</td>
<td>- Effectiveness &amp; fragmentation - Climate sustainability - Living conditions in rural areas - Consumer welfare</td>
</tr>
<tr>
<td>Interventions</td>
<td>- Access to sustainable renewable energy - develop governance &amp; environmental legislation emphasising position &amp; needs LDCs and particularly women in negotiations on environment &amp; climate - assisting LDCs to adapt to climate change - Land ownership &amp; land rights of poorest, including women’s equal rights to own and use it - promoting sustainable management &amp; use natural resources, such as forests - strengthening rights-based approach in water supply, sanitation and hygiene - indigenous peoples’ rights to natural resources</td>
<td>- Trade barriers &amp; enabling environment - Resilience to crisis &amp; climate change - Structural transformation association with higher per capita income</td>
</tr>
<tr>
<td>(Examples from policy 2012)</td>
<td>- Enabling environment that creates responsible entrepreneurial activity &amp; decent jobs - strengthening partner countries’ tax systems as well as public financial management and its transparency - Support to creation of inclusive business - Capacity and prospects developing countries to benefit from trade and to participate in regional and multilateral trade negotiations. - Development of higher education, science, technology and innovation systems - Knowledge society utilising new ICTs</td>
<td>- Supporting the Aid for Trade initiative - Regional economic integration - Regional and global trade interventions - acting for the reduction of illicit capital flight - participating in international debt relief initiatives and committing to funding - Climate funding through public, private sources - Biological diversity locally, nationally &amp; globally and ensuring rights of local communities - Food security through policy coherence both nationally and globally - Adoption of alternative indicators of well-being</td>
</tr>
<tr>
<td>Categories</td>
<td>Cooperation at country and regional level</td>
<td>Multilateral and EU cooperation</td>
</tr>
<tr>
<td>Modalities</td>
<td>National and Regional AFT projects LCF projects &amp; ICI projects</td>
<td>Multilateral AFT projects</td>
</tr>
<tr>
<td>Preconditions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Acceptable investment risks. Reasonable cost of doing business.</td>
<td>Existence of public policy and minimal expenditures on natural resources.</td>
<td>Existence (or perspectives) of beneficial trade and investment agreements.</td>
</tr>
<tr>
<td>Minimal involvement of women &amp; youth.</td>
<td>Linkages between different stakeholders</td>
<td>Enabling environment for trade initiatives</td>
</tr>
<tr>
<td>Minimal availability of price information.</td>
<td>Increased crop yields through innovation</td>
<td>Limited illicit capital flight and tax havens.</td>
</tr>
<tr>
<td>SMEs drive growth on investments and jobs.</td>
<td>Farm &amp; forest employment.</td>
<td>Commitment to financing for development better food security.</td>
</tr>
<tr>
<td>Minimal access of poor markets.</td>
<td>Minimal share and perspective for growth of agricultural GDP</td>
<td>Existence and minimal performance of public regulatory agencies.</td>
</tr>
<tr>
<td>Existence of private investment.</td>
<td>Perspectives income generation rural areas.</td>
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</tbody>
</table>
The AFT approach implies that at some step in the intervention logic in the ToC, Finnish partner countries increase trade or investments. This can be to neighbouring countries (cross-border trade), to regional markets or within global supply chains. If exports do not increase, the impact of AFT is incomplete. However, there can still be other impacts in the form of increased investment in local productive infrastructure, development of domestic markets and increased national income from private sector production.

**AFT implementation instruments and modalities**

Finnish AFT assistance is provided through most development cooperation instruments, of which the following are particularly important for AFT:

1. **Multilateral aid for trade funding to development organizations, international financial institutions and UN agencies, funds and programmes.** Finland provides support to private sector and trade development sector programmes and projects, as well as supports EU cooperation in AFT. It supports a wide range of international partners, mainly in the UN-system but also regional development banks, research institutes and international NGO’s. The relations with trade related multilateral and international organisations are managed by the External Economic Relations Department of the MFA, while the International Finance Institutions (IFI’s) are managed by the Unit for Development Financing Institutions. Finland supports multilateral and international partners with core funding and in certain cases with earmarked funding for some of their specific AFT funds and programmes (such as ITC and cross-border trade in East Africa and the World Bank Group’s InfoDev project in the Mekong and East African regions). The AFT project and partner list mentions 28 different projects at the multilateral level.

2. **Bilateral and regional projects and programmes.** Many projects and programmes in agriculture and rural development, forestry, innovation and knowledge society development and energy sector offer funding opportunities for companies and other private sector actors. Regional programmes for trade, regional integration, private sector development, forestry, energy and innovation programs also include AFT-related activities. The bilateral and regional programmes are managed by the Regional Departments and country teams of the MFA and by embassies in Finnish partner countries.

3. **Private Sector Instruments.** There are two specific MFA-funded private sector instruments relevant to AFT: Finnfund (Finnish Fund for Industrial Cooperation Ltd.) and Finnpartnership. The relations with Finnfund and Finnpartnership are managed by the Department for Development Financing Institutions.

4. **Local Cooperation Fund (LCF).** Finnish embassies can allocate finance from Local Cooperation Funds (LCF) to civil society partners in developing countries, such as CSOs, training and research institutes, the private sector and employers’ organisations and trade unions. Local companies are also eligible for LCF support for their long-term business partnerships.

5. **Institutional Cooperation Instrument (ICI).** ICI facilitates the participation of state agencies and offices in development cooperation to provide capacity...
development support to state agencies and offices in developing countries in the form of twinning arrangements.

The LCF projects are supported at the discretion of the national Embassies and managed by them, while ICI funded projects are managed by the Regional Departments of the MFA and by the Embassies.

6. CSOs. Civil Society Organisations, non-profit associations or foundations registered in Finland can apply for civil society targeted funding for their development cooperation projects. The CSO projects are managed in the CSO department of the MFA. Only a limited number of them are active in AFT related activities.

Other funding modalities in MFA are also relevant for AFT related interventions. However, these categories, were excluded from the AFT evaluation research, as per the ToR, although the evaluators have regularly seen links and references to them:

7. BEAM. Because the BEAM facility was introduced only recently, it was excluded in the ToR for this evaluation research and it was decided to evaluate this facility separately;

8. Concessional Credits. The Concessional Credits facility has been gradually phased out by MFA although still some projects are in their final stage and will still continue for some more years. MFA has developed a new facility to follow-up on the previous Concessional Credits instrument. The Private Sector Investment Facility (PSIF) will be launched in 2016.

The evaluators could observe regularly, during fieldwork and interviews that BEAM and concessional credits are relevant to AFT. This is particularly due to the possibilities these facilities offer for direct Finnish Private Sector engagement in development cooperation.

Although, less frequently encountered, there were two final modalities that have occasionally supported AFT (relevant) interventions.

9. Twinning of Higher education institutions (HEI-ICI) occasional projects occur, but rarely focus on AFT and therefore these were not subject to systematic investigation.

10. Research projects in business, trade and other fields of economic development in developing countries can be financed from the development research open calls of the Academy of Finland.

The figure on next page shows the distribution of Finnish AFT labelled aid during the period of the AFT-AP. This distribution is quite similar as during the period of the previous action plan of 2008-2011.
The figure above shows that most of AFT labelled aid is channelled to partner governments and institutions through bilateral projects, which cover 37% of the total budget. These bilateral projects are usually larger and longer-term projects. The second largest AFT receiver is the group of multilateral and international organisations, which received 30% of the total AFT disbursements in the previous years. This illustrates that Finland has placed significant importance to engaging with multilateral organisations, allowing for more visibility and a broader outreach at the global level. With the new Finnish Development Policy of 2016, Finland is, however, announcing a decrease in the general levels of funding and an increased focus to European Union initiatives and a more selective group of UN agencies.

Finnfund is the third largest receiver of AFT labelled funding in the past year. The Finnish Government is currently intending to increase funding to Finnfund, which could substantially increase the capital base of this development finance institution. International NGO’s and Finnish CSO’s are smaller categories of AFT recipients with 3% of the budget. The LCF disbursements in AFT are very modest with only 1%, since these projects are small compared with those supported by other modalities. In this category, the evaluators have sometimes observed that not all relevant LCF project are labelled as AFT while they in fact would qualify to this category of aid.

Finnpartnership, ICI-projects, HEI-ICI, some remaining Concessional Credit projects and research projects together constitute 7% of other disbursements, but within this category no disaggregated information was provided to the evaluators. Support to BEAM is not shown in the figure above, because that facility was not yet operational in 2014.

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2 The support to Finnfund is largely not grant-money but most funds are loans and equity investments, with a return on investment.
Monitoring and Evaluation of the AFT Action Plan

Monitoring of the AFT Action Plan is carried out at different levels. The quantitative output monitoring of Finland’s AFT is based on the OECD Creditor Reporting Standards (CRS) system. At the global level, the central part of the AFT initiative is the periodical Aid for Trade Global Review for which Finland provides it CRS data. Labelling is done on only one CRS code and this means that multi-faceted and complex projects that address multiple aspects of AFT are only registered under one code. The first code registered in the MFA coding (that enables more codes per project) is picked by the CRS system, but it is not always certain, whether the first code entered is the most significant in terms of funding received or emphasis. This introduces some bias in the CRS registration of Finnish projects. MFA does not conduct a further analysis of these output data other than entering them into the CRS system.

The AFT Action Plan for 2012–2015 is the first thematic action plan and thus far, also the only one containing a results framework with corresponding indicators at different levels. All AFT interventions have one common indicator at the objective level and this is the number of jobs (for men and women) created by the project or programme. Subsequently each goal and each focus theme in the Action Plan also has a specific indicator. This monitoring framework applies to all projects directly managed by the embassies and the MFA, and also Finnpartnership and Finnfund are requested to provide monitoring information at the overall objective level of the AFT. However, monitoring of results of multilateral organisations is based on the organisations’ own monitoring mechanisms and does not follow the same logic. Finland requests multilateral organisations to cooperate in providing some indicators on their projects: the number of jobs created; net export revenues; foreign direct investment; as well as relevant focus theme indicators. The development cooperation quality assurance group is to ensure that the appropriate goal and monitoring indicators are incorporated in all AFT interventions and that annual reporting is provided.

The Ministry for Foreign Affairs reports on Aid for Trade as part of the Ministry’s official reports to the Government and Parliament. The Development Policy Committee also follows the implementation of Finnish development cooperation, including Aid for Trade.

Management and Coordination of AFT Action Plan

In order to implement Aid for Trade and to strengthen its steering, the AFT Steering Group was set up in 2012 by the Minister of Development Cooperation, with a mandate to strengthen AFT guidance and monitor implementation, results, effectiveness, and give guidance for preparation of interventions (MFA 2012c). This includes follow-up of results and effectiveness based on the AFT Action Plan indicators annually; supporting programming e.g. by advising on project and programme preparation, and by dialogue on potential interventions and partnerships; and discussing and exchanging information on important international processes relevant to 2012 Development Policy Programme (DPP) implementation. This, again, was to enhance follow up of 2012 Development Policy Program (DPP) implementation including achieving the 2012 DPP and its sector guidance goals and priorities (MFA 2012d).
Other non-ODA support modalities and trade support organisations of the Finnish Government

Team Finland is a network-type operating model created for the implementation of the above-mentioned action plan. The Prime Minister’s Office bears the overall responsibility for the work of Team Finland. Its major goal is to support employment in Finland and the internationalisation of small and medium-sized businesses in particular. It supports integration of developing countries in world trade with different trade policy measures, as well as through development cooperation that supports trade (Aid for Trade). Coherence in trade and development policy is also listed as a goal.

Finpro is a global expert network for promoting the growth and competitiveness of Finnish companies through internationalization, established by Finnish companies. Its global Trade Centre Network promotes Finnish exports and imports to Finland. Its clients are Finnish companies at different stages of internationalization, and its aim is to guarantee that they, and especially small and medium-sized companies, have access to high quality, comprehensive internationalization services around the world. Finpro also provides foreign companies looking for business contacts in Finland with information through the Finnish Exporters’ database.

Finnvera is a specialized financing company owned by the State. It is an official Export Credit Agency (ECA) that provides its clients with loans, guarantees, venture capital investments and export credit guarantees. The State of Finland is responsible for all the guarantees it issues, and its operations are steered by the industrial and ownership policy goals laid down by the State. Among these are: (i) increasing the number of starting enterprises; (ii) enabling financing for changes encountered by SMEs; and (iii) promoting enterprise growth, internationalisation and exports.

The MFA and the Finnish diplomatic and consular missions monitor and promote Finland’s economic interests abroad through its Export Promotion and Internationalization (EPI) function. The geographically wide network of diplomatic and consular missions abroad, in cooperation with other EPI actors, provide companies with public services related to export promotion and internationalization.

Other key Finnish operators in export promotion and internationalization include TEKES (Finnish Funding Agency for Innovation); Invest in Finland; Finnish Tourist Board; Technical Research Centre of Finland (VTT); Sitra (Finnish Innovation Fund); and Regional Business Service Centres. In addition, the Centre for Metrology and Accreditation (MIKES) supports the competitiveness of Finnish trade and industry, and promotes the quality and reliability of national testing and inspection services. The National Board of Patents and Registration of Finland (NBPR) advances technological and economic progress, both in Finland and internationally.
3.3 Evaluation of Finnish Aid for Trade in 2011

An evaluation of the Finnish Aid for Trade was carried out in 2011 (MFA, 2011, p4). The following section introduces recommendations that were presented in this evaluation. On each recommendation MFA has provided a management response (in italics), which was documented in the “Management response and report on implementation” (MFA).

Trade context: Despite appreciating Finland’s sectoral and technical knowledge in bilateral aid relations in specific sectors in long-term partner countries, it was seen that linkages between sectors and the wider economy, including trade, are not always well understood and articulated. Finland’s understanding of the trade context (and knowledge of other donor activities) within particular sectors was considered limited. Improving understanding of the trade context by identifying national and regional binding constraints to trade through deeper reviews of existing analysis or by jointly commissioning gap-filling work was recommended.

The AFT Action Plan clearly states what the role of AFT is in the context of Finnish private sector interests and development strategy objectives and what the different instruments are. All AFT related training includes the conceptual framework (e.g. KYT training, green growth lectures, Team Finland events). No training for embassies had taken place at the time of implementation report of decisions.

Awareness and support: The AFT agenda was indicated to have high-level support within MFA. Finnish AFT specialists in MFA and at the country level are recognised for their contributions, both strategic and technical, on AFT. Development and communication of the AFT Action Plan and the establishment of AFT focal points have resulted in increased awareness of AFT. However, a clearer and better communication of definitions and position with regard to public-private partnerships, tied aid and use of its development co-operation budget to support Finnish enterprise and Finnish exports were recommended.

Conceptual framework: the AFT Action Plan was in line with the overall Development Policy Programme. However, there is no clear conceptual framework showing how AFT contributes to enhanced trade performance of different sectors. MFA staff-members do not always understand how their sector (where classified as broad AFT) fits within the AFT agenda or how an intervention classified as AFT might contribute to trade. A lack of conceptual clarification reduces cohesiveness and complementarities in collectively achieving trade-related performance targets. Development of a conceptual framework that better articulates the links between AFT, pro-poor growth and poverty reduction was recommended together with guidelines and clear communication on the framework more widely within MFA staff.

Clarify the conceptual framework particularly related to developing trade capacity of partner countries, green growth and other sector development goals. Include results chain with indicators and targets in AFT projects. Thematic trainings are to be organized to improve knowledge of AFT-related concepts (KEVALKU, embassies).

Guidance and internal cooperation on AFT: Internal guidance for designing, implementing and monitoring AFT was considered inadequate. For example,
not linking AFT projects and programmes with trade-related outcomes was considered to reduce the potential effectiveness of AFT on trade. Building up policy advice in MFA by increasing advisory capacity (and resources) and providing tailored training on AFT was recommended. Improving guidance by incorporating the new AFT conceptual framework into the Action Plan as well as MFA’s project management system was also recommended together with strengthening the quality assurance across sectors and aid modalities.

Cooperation between AFT responsible personnel, sector advisors and embassies will be increased. AFT will be included in preparation of relevant sector programmes and to be reflected in the project preparation guidance, the AFT Action Plan and work of the Quality Assurance Group. The report on implementation states that the AFT action plan describes the international operating environment. It takes into consideration commercial aspects through private sector instruments and partnerships. Job creation is the main objective for AFT. The AFT Steering Group has been established, but not all sector advisors participate regularly. AFT guidance, particularly indicators are not part of project preparation or AHA-KYT and not systematically integrated in the work of Quality Assurance Group.

**Fragmentation**: AFT portfolio comprised of bilateral, regional, multilateral and joint interventions, as well as a number of interventions and activities through other smaller instruments (e.g. LCF). Evidence of fragmentation was found of Finland’s AFT portfolio ‘spread too thinly’. A more strategic approach to identifying and planning AFT interventions was recommended, meaning rationalising the number of interventions and scaling up resources towards larger-scale programming. This was expected to bring improved efficiency and effectiveness, particularly in terms of improved trade and poverty outcomes.

**AFT projects are part of the assessment of fragmentation of development assistance in general.** The number of projects will be reduced and they will be focused strategically on 2012 DPP priorities so that the number corresponds to the administrative resources available. Some instruments are demand-based and do not burden administration of partner countries and this should be considered in fragmentation discussions (e.g. Finnpartnership, Finnfund). Report on implementation stated that fragmentation has decreased. NGO and LCF projects also do not burden the partner country administration but burden MFA.

**Result-based management, targets and indicators**: Project and programme level targets were considered weak. This together with absence of feasible indicators hindered the ability to measure results and therefore was considered to undermine accountability. Preparation of a performance framework with a limited number of high-level indicators and targets at the goal/impact and outcome level was recommended. It was considered useful in steering the design and implementation of AFT portfolio and in building greater coherence across AFT portfolio.

One of the AFT Action Plan’s main objectives will be strengthening RBM, both in bi- and multilateral assistance. International AFT monitoring systems will be utilized (WTO-OECD) in defining a result target for all projects (e.g. # of jobs), which will be applied to both bi- and multilateral cooperation. At the country level, project-specific targets will be drawn from countries’ development strategies. AFT projects will be designed so that they are in line with RBM principles and that they include
a results framework where broader development objectives are defined and long-term impact, and a limited number of indicators to measure progress are specified.

Report on implementation states that the AFT Action Plan indicates that strengthening RBM is an operational goal of AFT. The Action Plan has a clear results framework, comprising of objective, goals and focus themes with corresponding indicators. Indicators have been prepared and agreed with sector advisors and other experts and need to be followed in all AFT work. Results have been collected systematically since 2013. Use of results framework has been unsystematic which decreases result monitoring. Unsystematic use is due to the fact that AFT monitoring indicators and guidance are not included in AHA-KYT and that sector advisors and Quality Assurance Board do not systematically remind of them and take AFT into consideration.

**AFT instruments and aid modalities**: Mix of aid modalities with linkages and potential complementarities was not given sufficient attention and strategically thought of. Projects and programmes were often considered in isolation. Promotion of greater synergies between interventions funded under different modalities, through improved information sharing particularly between the multi-lateral and bilateral portfolios, was recommended.

**Information exchange and cooperation between instruments will be increased, particularly between bi- and multilateral cooperation.** When updating AFT guidance notes an assessment of guidance needs and organisational arrangements will be made. Different forums and thematic meetings will be utilized. The report on implementation refers to AFT Steering Group, which regularly discusses all types of development cooperation and shares experiences. Cooperation between bi- and multilateral cooperation has been increased e.g. by keeping embassies informed of country specific projects of the multi-lateral trade and development organizations. In addition, action plan encourages private sector and NGOs for implementing projects jointly.

**AFT portfolio and global AFT trends**: The coverage of AFT portfolio across the different categories was considered to lag behind the global trends in AFT. For example, regional integration and trade-related infrastructure, while emphasised in the Action Plan, had not been followed up with disbursements. Rebalancing by increasing the proportion of funds allocated to global priorities was recommended.

*New projects will be targeted according to 2012 DPP priority areas. Report on implementation states that new projects are fairly focussed on the AFT Action Plan goals which are to emphasize themes relevant to 2012 DPP priority areas. New projects focus on green growth, renewable energy, agriculture and food security, resource management, women’s economic empowerment, innovations and private sector partnerships.*

**Crosscutting objectives (CCOs)**: The evaluation indicated that crosscutting objectives were not adequately integrated across the portfolio. For example, regarding gender, interventions tended to deal with gender only at the level of numbers of women benefiting from an intervention. Systematic integration of crosscutting objectives was recommended together with improved guidance and additional advisory resources to do so during design and implementation, including quality assurance processes.
CCOs and HRBA will be taken into consideration in the AFT Action Plan based on the 2012 DPP and guidance will be given on how they will be taken into consideration in the projects, in monitoring and reporting and in the work of the Quality Assurance Group. Report on implementation of the decision states that the AFT Action Plan emphasizes integration of CCOs and provides several examples of this. The goals of AFT now also include CCOs more visibly and they are now more systematically taken into consideration in project preparation.

**Accountability and learning:** Evaluation indicates that reporting and feedback varied in quality across the AFT portfolio. Learning was considered ad hoc, and access to systematic case studies or guidance on AFT by embassy staff was seen to be limited. Preparation of short guidance notes in addition to preparation of the new Action Plan was recommended, including concrete examples of lessons learnt and good practice on AFT within both multilateral and bilateral contexts.

Include guidance on information exchange and learning from experience in the new AFT Action Plan. Reports, reviews, evaluations and briefings on lessons learned and best practices, including multilateral cooperation, were to be included in the AHA–KYT information system and external communication. Report on implementation indicated that AFT Steering Group has provided a platform for information exchange, and that the responsibility for including materials in the AHA-KYT and external communication is with persons responsible in different units.

**Findings from other relevant evaluations and reviews**

In the past three years, other evaluations have been conducted on Finnish development cooperation that are relevant to the AFT Action Plan and its implementation.

In the “Results on the ground?” report of an independent review of Finnish Aid published in May 2015, it was observed that “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” (p. ii) and it underlines that “in private sector development Finland has much to offer” (Reinikka 2015). The reviewer recognised that attention to private sector development in the DDP of 2012 was clearly improved, but in spite of more attention the evaluator also observed that “the Finnish private sector opportunities have not so far coincided much with bilateral aid”, specifically referring to the geographical spread of the investments of Finnfund and its unsuccessful attempts to build a stronger portfolio in Vietnam. In spite of these critical remarks, the report highlights the role of Finnfund in developing countries and recommends a capital increase to Finnfund. It also recommends the follow-up of the concessional credits instruments by another improved instrument. Both these recommendations were followed up in the new Finnish Development Policy.

In the chapter of recommendations several other interesting recommendations are made that are also relevant for this more specific subject of evaluation on AFT. The independent reviewer suggests that support to CSOs should be subjected to a comprehensive evaluation “that 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 better with bilateral aid.” (Reinikka, R., 2015, page 43, recommendation 4).

The evaluation report on the Finnish Concessional Aid Instrument (MFA, 2012 p. 4) was very critical of the Finnish concessional aid. Parallel to this evaluation, the Government decided in 2011 to phase out this instrument during the DPP implementation period. The report clearly stated a preference to “wind down” the concessional aid instrument, which was done in the previous policy programme period. Two other possible scenarios were recommended: to continue with the instrument but to untie concessional loans from Finnish providers of goods and services or to improve the current design of the instrument. The new FDP of 2016 announces the re-introduction of the concessional aid instrument as the Public Sector Investment Facility (PSIF) and therefore followed up the final scenario of the 2012 evaluation. “It will be used to support developing countries’ public sector investments in order to strengthen the capacities of developing countries with the help of Finnish technology and expertise” (MFA, 2016, p. 42). Doing so, it seems that this facility is reintroduced without major changes compared to the previous version. MFA has recognised (as in the independent Finnish Aid Review) that the concessional loan instrument is a powerful instrument to increase Finnish Private Sector engagement in investments and trade with developing countries.

The Results Based Management evaluation in 2014 explicitly recognises that “The Aid for Trade – Finland’s Action Plan 2012–2015 (MFA 2012a) is an important attempt towards more result-based planning in theory. It has one objective, four goals and eight sub-goals (called focus themes) both with related indicators. The plan attempts to link, directly and indirectly, programme 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 (AFT) related projects are to have two to three results indicators” (MFA, 2014, p. 57). The RBM evaluation already observed that in the short time of implementation of the AFT-AP that “The current set of indicators may prove difficult to causally link to MFA activities. Since AFT projects are not planned within the AFT results framework, the availability and quality of indicator monitoring data is limited” (ibid. p. 57).
3.4 The AFT country studies seen in the context of overall Finnish ODA and AFT support

The Finnish ODA disbursements to long-term partner countries are presented in the figure below (Figure 7).

**Figure 7: Finnish ODA disbursements to long-term partner countries (2012-2014) (EUR million)**

![Bar chart showing Finnish ODA disbursements to long-term partner countries (2012-2014)](image)

Source: data provided by MFA to AFT evaluation team, December 2015

The figure above shows that Tanzania among the long-term partner countries receives the most ODA with total of EUR 103 million in the period 2012-2014. Kenya is the second largest recipient of Finnish ODA with EUR 85 million during the same period. Ethiopia, Mozambique, Nepal and Zambia follow with similar amounts between EUR 63 and 74 million. Vietnam as a transition country in Finnish aid received significantly less with EUR 43.5 million. Although Nicaragua has been phased out as a partner country, during 2012–2014 it still received approximately EUR 15 million; however, after 2015 no further ODA disbursements were made to Nicaragua.

Analysing the overall AFT portfolio of 2012-2015, 112 projects are labelled as AFT by the MFA. The projects are quite varied in terms of geographic spread, type of project and type of partners. Some of the characteristics of the AFT project portfolio in the period covered by this evaluation are presented below.

The geographic spread of the AFT portfolio is shown on next page in Figure 8.
As seen in the Figure 8, the largest number of projects are realised at the global or multi-country level with projects. 29 of these can be considered projects with a global scope. These are mainly projects with Multilateral and Multinational organisations, but also include funding through MFA private sector instruments i.e. Finnfund, Finnpartnership, BEAM and Concessional Credits. An additional eight projects focus on selected countries situated in different continents, some Finnish NGOs such as Fair Trade Finland, Finn Church Aid, Plan Finland, and World Vision Finland are included here.

In Africa, 34 specific projects are labelled as AFT, a fair number of them (9) have a continental or regional scope. Particularly the Southern African Development Community (SADC) and the East African Community (EAC) are targeted with in total six projects, two in SADC, one in EAC and another two in EAC and SADC combined.

The country level projects in Africa cover six countries. Zambia with seven, and Tanzania with six AFT projects are the countries with most AFT labelled support activities, followed by Ethiopia, Mozambique and Kenya. In Namibia (a former long-term partner country of Finland) one AFT project has been implemented during the period covered by the evaluation. This clearly shows that country level AFT projects are focus on the long-term partners of Finland in Africa.

In Asia a total of 26 AFT projects have been or are being implemented. Nine of these have a regional or sub-regional scope. Particularly the Central Asian region (especially Kirgizstan, Uzbekistan and Tajikistan) has several AFT projects (6). Two other AFT projects have a regional scope concentrating on the Mekong region.

National level projects are spread over 10 countries in the region. Nepal with four AFT projects has the most, followed by Vietnam, Mongolia, Kirgizstan and
Afghanistan all with two projects. The other five countries (Laos, Cambodia, Indonesia, Myanmar, Tajikistan) all have one project.

Eastern Europe remains relevant in the AFT portfolio with eight projects, all at the national level; five in Kosovo and three in the Ukraine.

The Middle East and Northern African region have four AFT projects, one of which is a national project in Egypt.

In Latin America there are only projects in the Andes region, with two regional level AFT projects and one project in Peru (a former long-term partner country).

The analysis presented above shows that the three countries selected for this evaluation are very representative of the overall ODA portfolio and the specific AFT portfolio. Tanzania is the largest Finnish ODA receiver and it is the second largest country-level AFT project holder in the overall AFT portfolio. Zambia is a medium-sized ODA receiver in the same range of most other ODA receiving Finnish partner countries and Zambia holds the largest number of country-level AFT projects in the AFT portfolio. Vietnam as a transition country receives a small ODA budget and it is in the middle range of the individual countries in Asia in terms of AFT projects.

The countries selected for the country studies also present a representative sample of the different development contexts in Finnish partner countries:

For Vietnam MFA’s country strategy includes a plan to phase out bilateral aid by 2018, although specific modalities such as LCF, BEAM and PSIF and the private sector instruments could still continue. In the phasing out of ODA, a transitioning process is foreseen towards economic, trade, cultural and institutional cooperation based on new partnerships, in which the private sector and civil society take an active role.

In Zambia the focus is also moving from traditional bilateral cooperation towards economic cooperation. However, the country’s economy is highly fragile and almost entirely dependent on exports of a single commodity: copper. Oscillations in world copper prices have a high impact on the country’s economy and it is obvious that Zambia, although it is currently in the league of lower middle-income countries, is not yet ready for a smooth transition process.

The third country, Tanzania, is a good example of a low-income country with a weak economic production base, almost entirely dependent on agriculture and tourism and on the development aid sector itself as one of the most important sources of income for the country.

In the following sections, short summaries are provided on the country context and the AFT portfolio in these countries. The next chapter (4) will present the findings of the evaluators on the application of the AFT action plan in these countries as well as the results obtained in AFT.
Finland’s Aid for Trade portfolio in the three country studies

Aid for Trade accounts for approximately a fifth of Finland’s development cooperation funding. In the three countries visited in this evaluation, Tanzania, Zambia and Vietnam the percentages are higher than average. Data compiled by MFA for AFT and total ODA for the three country studies are presented below (Figure 9).

Figure 9: AFT and ODA disbursements to Tanzania, Zambia and Vietnam 2012-2014 (in Euro)

The overall average AFT provided to the three country studies in the period 2012-2015 was 36% of total ODA. The percentage of AFT compared to total ODA in Zambia is considerably higher (53%) than in Vietnam (38%) and Tanzania (26%).

The total amount of Finnish ODA to Tanzania is much higher than to Zambia and Vietnam. Due to the country context, the portfolio in Tanzania is less coloured by AFT activities than the other two countries. In Zambia, there is a high concentration on AFT interventions due to a portfolio that is rich in large agricultural development projects. Although Vietnam is more developed and integrated into international markets and supply chains, the Finnish focus on AFT in Vietnam is not very strong.

Data on AFT commitments and disbursement for the three country studies show volatile movements of AFT support over the past three years for all three countries. In Tanzania there is a constant increase of AFT support over the past three years, increasing from 9% in 2012 to 38% in 2014. In Vietnam and Zambia, however, during the same period, one can observe a decrease in the AFT share from 45% to 37% and 60% to 38%, respectively.

The Finnish Aid for Trade portfolio in Tanzania, during the AFT-AP implementation period is presented in the table on next page (Table 3).
Table 3: Finnish AFT portfolio in Tanzania 2012-2014 (disbursements in Euro)

<table>
<thead>
<tr>
<th>Sector</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade Policy Regulation &amp; Trade Related Adjustment</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Transport and storage</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Communications</td>
<td>1,203,464</td>
<td>1,051,173</td>
<td>2,186,201</td>
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<tr>
<td>Energy Generation and Supply</td>
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<tr>
<td>Banking and Financial Service</td>
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<td>-</td>
<td>-</td>
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<tr>
<td>Business and other services</td>
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</tr>
<tr>
<td>Forestry</td>
<td>1,388,396</td>
<td>1,944,842</td>
<td>3,245,676</td>
</tr>
<tr>
<td>Fisheries</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Industry</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Mineral Resources and Mining</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Tourism</td>
<td>-</td>
<td>45,000</td>
<td>5,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,437,406</strong></td>
<td><strong>8,412,136</strong></td>
<td><strong>15,497,506</strong></td>
</tr>
<tr>
<td>Total ODA Tanzania</td>
<td><strong>27,245,836</strong></td>
<td><strong>34,076,678</strong></td>
<td><strong>40,865,809</strong></td>
</tr>
</tbody>
</table>

Source: data provided by MFA to the evaluation team, December 2015

The energy sector has been the most important sector for Finnish AFT interventions in Tanzania. This was largely related to a large project for improving the electrical power supply Dar es Salaam in this period. Forestry constitutes the second largest sector, in which a large private plantation forestry and value chain project was supported in the past year. In the third sector, the TANZICT project focusing on ICT and information society innovations was a large project. In agriculture two projects (LIMAS for agribusiness support in Lindi and Mtwara and a seed potato development) constituted the main activities.

Other sectors in the AFT portfolio are non-existent or very small, probably small support given by the Embassy to LCF projects.

The Finnish Aid for Trade portfolio in Zambia, during the AFT-AP implementation period is presented on next page (Table 4).
The AFT portfolio in the period 2012–2014 shows that most AFT investments were made in the agricultural sector. There were several large bilateral projects accounting for this: PLARD (I and II) for agricultural development in Luapula, The S3P focusing on Smallholder production promotion and support to the National Farmer’s Unions (ZNFU) and some small projects such as production of disease free planting materials. The second sector is constituted by Business development and in this sector Finland has supported a joint UN programme on sustainable green businesses in Zambia. Finland has also supported the Private Sector Development Reform Programme addressing business and industry in general with a significant amount of resources. Finally, in the finance sector, Finland has supported financial sector development. Other AFT categories are very small and almost negligible in Finnish support to Zambia.

The Finnish Aid for Trade portfolio in Vietnam, during the AFT-AP period is presented in the table on next page (Table 5).
Table 5: Finnish AFT portfolio in Vietnam 2012-2014 (disbursements in Euro)

<table>
<thead>
<tr>
<th>Sector</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade Policy Regulation &amp; Trade Related Adjustment</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Transport and storage</td>
<td>601,095</td>
<td>731,646</td>
<td>744,100</td>
</tr>
<tr>
<td>Communications</td>
<td>591,704</td>
<td>1,486,478</td>
<td>1,126,485</td>
</tr>
<tr>
<td>Energy Generation and Supply</td>
<td>770,626</td>
<td>711,851</td>
<td>637,870</td>
</tr>
<tr>
<td>Banking and Financial Service</td>
<td>62,907</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Business and other services</td>
<td>13,309</td>
<td>33,269</td>
<td>98,185</td>
</tr>
<tr>
<td>Agriculture</td>
<td>58,470</td>
<td>65,606</td>
<td>34,688</td>
</tr>
<tr>
<td>Forestry</td>
<td>1,656,825</td>
<td>2,929,717</td>
<td>2,500,388</td>
</tr>
<tr>
<td>Fisheries</td>
<td>323,102</td>
<td>0</td>
<td>-</td>
</tr>
<tr>
<td>Industry</td>
<td>406,041</td>
<td>402,383</td>
<td>320,787</td>
</tr>
<tr>
<td>Mineral Resources and Mining</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Tourism</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total AFT</strong></td>
<td><strong>4,484,079</strong></td>
<td><strong>6,360,950</strong></td>
<td><strong>5,462,503</strong></td>
</tr>
<tr>
<td><strong>Total ODA Vietnam</strong></td>
<td><strong>10,060,328</strong></td>
<td><strong>18,619,579</strong></td>
<td><strong>14,778,808</strong></td>
</tr>
</tbody>
</table>

Source: data provided by MFA to the evaluation team, December 2015

The Finnish AFT portfolio shows that the largest sector of Finnish activities in Vietnam has been the Forestry sector, through the regional Forinfo, the national FORMIS project, the Trust Fund for Forests (TFF) and support to EU-FLEGT. The Innovation Partnership Project (IPP) has been investing in start-ups in the ICT sector and other sectors. Also through the World Bank Group, support was given to ICT incubation in the InfoDev project, making communications the second largest sector in the AFT portfolio. Through the regional Energy and Environment Partnership (EEP) Energy projects were supported in Vietnam. Smaller projects were done in different sectors, in which fishery has received some special attention, although this is not strongly reflected in the AFT disbursements.

Although activities in the water sector have comprised a significant proportion of activities of private sector companies and other partners in the Finnish Water Forum, these were not labelled as AFT projects, because the OEAC CRS system does not specify water as an AFT sector. As a result, it is difficult to track specific water sector related activities in Finnish development cooperation.
4 SYNTHESIS OF FINDINGS FROM FIELD STUDIES

This chapter provides a synthesis of findings on the country studies to Tanzania, Zambia and Vietnam. Following the country level findings, results of a desk-study of effects of AFT interventions on job creation, economic growth and poverty reduction and on trade flows are presented. Furthermore, this chapter contains the summary findings from fieldwork among international organisations that have received AFT support in the framework of the AFT action plan. The final section of this chapter contains findings from a small comparative study on Private Sector Development instruments developed and used in international cooperation by Denmark and the Netherlands. This comparative analysis is presented in more detail in Annex 6.

4.1 Tanzania

Relevance

The portfolio of AFT projects in Tanzania shows the relevance of AFT; however, the Country Strategy does not directly refer to the AFT Action Plan. AFT projects form a significant part of the total portfolio. Several projects focus on regional trade issues and link up with the process of strengthening the East African Economic Community. The most important project is the Trade Mark East Africa (TMEA), in which Finland participates alongside many other development partners and is one of the largest AFT projects in the world. A second project is implemented in Tanzania and Zambia by the International Trade Centre (ITC) and focuses on strengthening intra-regional trade. Other bilateral projects such as the Private Sector Forestry Programme and LIMAS focus on strengthening productive structures in forestry and agriculture. The TANZICT project supports the start-up of Small and Medium Enterprises (SMEs) in the ICT sector. A final key project supported economic infrastructure to enable private sector activities in the improvement of the reliability of the electricity Provision in Dar es Salaam. Additionally, there are a number of LCF projects that also focused on supporting SME’s in the off-grid electricity sector and in textiles. Finnpartnership and Finnfund have quite significant portfolios in Tanzania (much larger than in the other two country studies). However, while a full range of AFT instruments is applied in Tanzania, this is not a result of the AFT Action Plan, since it was not used as a planning tool. The Private Sector Development and Trade focus was driven by other factors such as Tanzania’s poverty reduction strategies MKUKUTA II, international trends and particularly the regional economic integration process and also by initiatives of Finnish NGO’s and companies. These activities of NGO’s and companies were often linked with historical initiatives and partners that were active in the development sector. Finnish private sector presence is notable in the forestry, energy and agri-
cultural sectors and regularly provides services or goods to international development partners including Finland in the context of development projects.

**Effectiveness**

The AFT projects have gradually introduced more attention to public-private cooperation and partnerships in Finnish aid in Tanzania. In TANZICT, LIMAS and PFP, cooperation included direct links with private sector actors in addition to working with the government counterpart Ministries and institutions. The public-private partnership approach in these projects is beneficial for increased outreach and effects on economic life. This trend is continued and strengthened for example in the new TANZICT phase where the focus will be on ICT incubation centres for SME’s in cooperation with COSTECH.

Management and implementation capacity in Government Institutions (but also private sector organisations, such as Tanzania Private Sector Foundation (TPSF)) is often weak. In Finnish bilateral projects, project management and implementation is done through Finnish consulting companies providing Chief Technical Advisers (CTAs) and short-term advisors to local partners. It appears that in the ToR for these CTAs/coordinating companies the focus on transfer of capacities to local institutions is weak. CTAs remain in place until the end of projects and only limited capacity transfer has often occurred. In this way the vicious circle of low capacity, corruption, mismanagement in local institutions cannot be broken.

Effectiveness of Finnish cooperation in AFT is limited by weak articulation between different aid instruments: the LCF is supporting the private sector oriented projects, but these are not linked to other projects or facilities, while they may be targeting the same sector (e.g. off-grid electricity provision). In the overall AFT portfolio, projects are not well linked and there is limited exchange: the different channels/instruments working like silos.

Some of the AFT projects have focused very much on production and not on market-entry and development. In these projects, possibilities for value chain development have not yet been integrated, which has led to limited effects on enterprise and market development.

Finnfund is active in Tanzania in the forestry sector, and Finnpartnership has supported a Finnish company in the communications sector that was effectively linked to the Private Forestry Project, but such linkages still seem more accidental than planned. Sometimes, proof of the contrary can even be seen: Finnfund is providing finance to an enterprise in off-grid electricity provision, while a competing firm is supported with a donation through an LCF project.

Through Team Finland and with participation of Finnpartnership, occasional conferences and trade missions have been arranged. Some exposure visits of Finnish companies in Tanzania and vice-versa visits of Tanzanian companies to Finland (SLUSH) have taken place. Various stakeholders involved indicate that such activities were often not well targeted or followed-up. Few lasting business linkages were established as a direct result of the Team Finland or Finnpartnership actions, although probably more than in Vietnam and Zambia. It was also indicated that strengthening and facilitation of business contacts
require active communication and follow-up. In this respect the fact that Finpro is not present in Tanzania and that Finnpartnership has no representatives or advisors on the ground is seen as a limitation.

The weak business-enabling environment in Tanzania is a bottleneck for achieving tangible results in private sector development and trade projects. Progress in project implementation has often been slow. The new Government’s entry in 2015 has created some impact on the political and economic life in Tanzania and the new president has taken quick and strong actions against corruption. He has also indicated that private sector development is a priority of the new Government. While it is still too early to say, conditions for private sector development and setting up partnerships for development might improve in the near future.

**Efficiency**

Project implementation and budget utilisation of most of the AFT project has generally been slow. This was particularly so in the larger bilateral projects. During the country visit, delays were encountered of up to two years. These delays are indicative of the low capacity of local implementing partner institutions and of insufficient attention given to capacity development of local partners.

The cross-border trade project with ITC (also implemented in Zambia) was not considered efficient by partners in Tanzania (and also not by partners in Zambia), because implementation was done from a distance (by “remote control”) and by sending international consultants. Coordination with the local partner, Small Industries Development Organisation (SIDO) was limited and opportunities for local support were not sufficiently used.

**Impact**

Finland’s participation in TMEA has been very strategic. It is a highly visible AFT intervention working at the East African Community (EAC) level. TMEA is well embedded at regional and national level and it is well known and well respected by stakeholders. It was able to produce impact in reduced border time and in increase of intra-regional trade flows. The TMEA concept of transport corridors and growth hubs is relevant for increased poverty reduction and economic growth interventions that are foreseen in the next phase of TMEA. There are also linkages with large investment interventions of the World Bank and DFID in the ports of Dar es Salaam and Mombasa that enable increased impact on intra-regional trade.

In the forestry sector, the Finnish supported AFT interventions have led to a significant size and improved quality of reforested land. In the Southern Highlands and in Kilombero Valley, many smallholders now grow trees and continue to expand plantations. They become an interest group in sustainable resource use and have started to influence sector policies. However, sectoral governance aspects (e.g. predictability of accessions) need to be tackled to create a better business environment for a more lasting impact.

The TANZICT project has led to increased capacity of the Ministry of Works, Transport and Communications but the impact on the new policy implemen-
The current reshuffling of Ministries has delayed the ratification of the ICT policy. The work of the Government institution COSTECH on SME-incubation is creating impact but at a limited and small scale of specific start-up companies. The TANZICT incubation approach seems to focus on ICT applications and services but less so on application of ICT in other sectors and markets. For example, ICT innovations could support the rolling out of digital tracking devices in cross-border transportation (relevant in TMEA) or in GPS applications in forestry in the PFP. In case the application remains limited only to the ICT sector (and related Business Process Outsourcing (BPO)), Tanzania will face challenges to compete with Rwanda and Kenya, who are further advanced in this market.

The limited staffing and follow-up on facilitation of business relations within Team Finland and the embassy and the limited presence of Finnpartnership on the ground have led to generally limited impact of private sector engagement in investments and trade in Tanzania, with the exception of some relevant examples that are linked to development sector itself (consulting companies providing CTAs, ICT company providing data-platform to development projects and Finnfund providing finance to a forestry company active in the PFP).

**Sustainability**

The limited extent to which management and implementation capacity is transferred to local partners is a threat to institutional sustainability because the local ability to take over coordination and implementation of projects remains limited and dependence on international consultants remains high in Tanzania.

The AFT projects in Tanzania have not had sufficient business and value chain development focus (with the exception of PFP) and therefore have not sufficiently led to clear and viable business models to start-up and continue sustainable economic development activities.

Sustainability of the private forest plantations still requires several steps, such as improved capacity of management to ensure sustainable income for smallholders. More linkages are needed along the wood processing value chain, and governance aspects (policy and regulations) in the forestry sector have to be solved to allow a further stable business development in this sector.

Limited and decreased staffing at the embassy and capacity in Team Finland (including local presence of Finpro) are a bottleneck for further development of sustainable business relations between Finland and Tanzania, particularly outside the traditional development sector.

With the phasing out of the LIMAS & Electricity in Dar es Salaam projects, there is a risk of losing contacts and the strong Finnish reputation in the water and clean energy sectors. These sectors remain important in the future development of Tanzania and can constitute possibilities for business linkages, but that will require maintaining relevant business relations established during the previous Finnish interventions.
Complementary, Synergy and Finnish Value Added

The AFT interventions in the forestry sectors showed synergy, instigated by the PFP project. Finnfund equity investments to the Kilombero Valley Teak Company (KVTC) served as trigger to interact with this bilateral programme. Research cooperation in forestry also has been a beneficial relation to PFP, and the Seed Potato Project improved income generation for forestry smallholders, while they were waiting for their trees to mature.

The recent reshuffling of Ministries and the cutting off of the direct link between COSTECH (now under Ministry of Education, Science, Technology and Vocational Training (MESTVT) and the TANZICT project office in (now) Ministry of Works, Infrastructure and Communications create a challenge for future embedding of the TANZICT project. The focus of the next phase will be on COSTECH (and business incubation), but COSTECH is not subordinated anymore to the Finnish partner ministry where the TANZICT project office is housed. MESTVT has now become the partner ministry for developing the successor programme to TANZICT, which is called TANZIS.

The silos in the Finnish aid channels have limited complementarity and coherence between different projects. Parts of the bilateral TANZICT project and the multilateral infoDev (DTBI incubator) are implemented with the same partner COSTECH, but although the incubator and TANZICT are coordinated and complementary, information sharing on the projects beyond COSTECH is not systematic. This is also caused by the fact that the InfoDev project is implemented by the World Bank Group/IFC as an international project.

Cross Cutting Objectives

The Finnish AFT portfolio in Tanzania has placed specific attention on gender and in several projects, gender-specific interventions are included. For example, in the TMEA project, women and cross border trade receive priority attention as one of the pillars in the new phase. Specific attention was included to female entrepreneurship in SIDO. Projects plan and monitor for women's participation in all AFT projects (and also at the level of the aid portfolio as a whole).

Attention for environmental issues has been strong in the Tanzanian AFT projects. This perspective is included in the private forestry project and in LIMAS. The PFP rehabilitated degraded land and stakeholders became interested in sustainable use of natural resources. Climate effects are positive and if new generation carbon mechanisms would be used to fund investments (by PFP, KVTC, ARTI) this could lead to increased environmental impact.

Attention for Human Rights in Tanzanian AFT project portfolio has been more limited than for other crosscutting objectives, but could be observed in interventions focusing on employment and livelihood development.
4.2 Zambia

Relevance

The Aid for Trade and Private Sector Development-agenda is highly relevant in the context of Finland’s development cooperation in Zambia. Zambia has a Lower Middle Income Country (LMIC) status, which implies strive towards new types of partnerships and instruments with stronger links to the private sector. The AFT-related portfolio is well aligned to the country context of Zambia, its development needs and policy framework which promotes private sector development, accelerating job creation, increasing productivity and competitiveness through business environment reforms, Micro, Small and Medium Enterprise (MSME) development, labour reforms and productivity. It is also aligned with the Finnish DPP 2012 policy priorities and its focus on private sector development through an inclusive green economy that promotes employment and principles, including crosscutting issues such as HRBA and gender.

The current 2014–2017 Country Strategy (CS) already includes AFT elements of private sector development both directly, as one of four pillars is PSD, and indirectly as part of agriculture sector through increased productivity. The CS objective for the private sector aims at “increasing inclusiveness of the economy by promoting growth and competitiveness of MSMEs”. Interventions and the CS reflect the increased focus on private sector development also in agriculture by emphasizing “farming as a business” approach. In the on-going up-date of the CS, the PSD is planned to be one of the two pillars of the CS, thereby its importance further increases.

There is limited involvement of Finnish SME’s in Zambia. Although there has been interest, this has not materialized in the form of concrete investments or trade. This is partly due to the current unpredictable investment environment in Zambia. There is also a disconnect between the development policy focus of the Finnish Government that is focused on poverty reduction and agricultural development in Zambia, while commercial interests are mostly limited to a small number of larger Finnish companies that are interested in the mining sector of the country, in which more possibilities for trade and investment exist. Interviews with stakeholders also revealed that current Finnish instruments available for private sector engagement in developing countries do sufficiently cater for smaller companies interested in other sectors and at the level of SME development.

Private sector interventions, namely, ZGJP, PSDRP and FSDP focus on creating decent jobs, enhancing the business environment and increasing financial inclusion. However, involvement of ultimate beneficiaries (companies, etc.) in project design has been limited, leading to limited knowledge and weak ownership of projects and project results among the private sector itself. In addition, the impact of interventions on private sector actors has not been measured in the evaluation of these projects.

The agriculture sector interventions have a poverty emphasis and were designed to focus on smallholder farmers with “farming as a business” approach and agricultural diversification. By design, the PLARD II, ZNFU CSP
I and II, SIP and S3P are highly relevant to smallholders as final beneficiaries, but relevance is decreased by poor performance of some projects, such as SIP and S3P.

The Local Cooperation Fund (LCF) support is increasingly used for private sector support, both at the level of policy advocacy as well as private sector support on the ground. Other instruments, such as regional programmes, ICI, Finnish CSO support and Team Finland, are very relevant. However, opportunities provided for integrating these separate projects more into country level programming have not been utilized.

The AFT Action Plan is not well known by stakeholders and therefore the full potential of all AFT modalities is not tapped upon. The AFT Action Plan itself is primarily an MFA document and not known by the Zambian government or other donors.

**Effectiveness**

Continuity and consistency of Finland’s AFT support in selected sectors (PSD, agriculture) has made it more effective. Its focus on areas where others have not been working has enabled delivering value added beyond what could have been expected compared to its financial contribution. Policy influence has contributed to the implementation of the AFT-related agenda and to influencing developments at the sectoral level in PSD and agriculture. However, the decrease of budget and portfolio of Finnish cooperation with Zambia poses a threat to Finland to maintain its role and influence in bilateral dialogue and development partner working groups.

Implementation of bi- and multi-bi AFT-related interventions has provided valuable results and outcomes in private sector and agricultural sector development and has contributed to some of the goals set in the AFT Action Plan, but effectiveness has been hampered by delays, especially in the agriculture sector. Project implementation has contributed to increased agricultural diversification, productivity gains, access to financing and financial services, technology and value addition to farmers, streamlining of business processes and financial inclusion. Existing risks related to using government systems in general and low commitment at the ministerial level in the agriculture sector were not sufficiently recognized, and this sometimes resulted in unrealistic project designs and timeframes.

Efforts to create more focus in the AFT portfolio have been considerable, but due to existing contractual arrangements this process has taken time. The CS process has resulted in reducing fragmentation and making decisions on closing poor-performing projects but these decisions were not driven by the AFT Action Plan, but rather by the Country Strategy processes. The current trend towards a more solid and holistic PSD programme as one of the main pillars of the CS update will provide better possibilities to link interventions to the theory of change and targets of AFT and increase the capacity of MFA and Embassy staff to plan and steer.

The AFT agenda or the Action Plan have not been used to advance collaboration between Zambia and Finland in terms of the establishment of businesses...
Fragmented management of different instruments has not facilitated the development of a comprehensive plan for effective promotion of business partnerships and trade relations, linked with development priorities of Zambia.

The LCF has worked as a reasonably flexible instrument to address private sector development (green growth that promotes job creation and human development), at both policy and implementation levels, within the financial resources available. The LCF portfolio will be scaled down and funding will be decreased in the coming years, but increasingly channelled for supporting business partnership between Finnish and Zambia companies.

Other instruments, such as ICI, Finnish CSOs, and regional programmes have been used only on a small scale. As there have not been any evaluations/reviews of these instruments, it is difficult to assess their effectiveness. The Embassy is not fully aware of regional programmes so it has been difficult to link them with bi-lateral projects and other interventions. As with the ICI instrument, it is a clear limitation that the regional programmes operate under separate arrangements and procedures that limit the Embassy’s influence on establishing linkages and synergy with the Zambia country programming.

**Efficiency**

Fragmentation of the AFT-related portfolio and the quite a large number of LCF projects (decreasing and with a special focus also on private sector) leads to balancing between costs of management and administration, and the level of monitoring. A reduced portfolio and focusing on one private sector programme in the updated CS are expected to bring efficiency gains in the future. Transaction costs for LCF’s can be high, but do sometimes also pay off in terms of small money bringing a significant change. There has been good complementary use of the newer LCFs, for example the AMSCO support to the SIP project and direct support to private sector companies such as Rent-to-Own.

Accumulated delays in several AFT-coded projects and programmes have affected efficiency. The risks of using country systems were not well identified, resulting in over optimism regarding target setting. Other challenges causing significant delays were related to the government implementation modality (e.g. FSDP, PSRDP) and procurement processes. Delays in all the multi-bi projects (e.g. ILO in ZGJP, IFAD in S3P and ADB in SIP) were significant and in the case of S3P and SIP resulted in ending the support by Finland. The risk of some partners lacking sufficient implementation capacity has not been sufficiently assessed.

In AFT-related agriculture sector support the SIP, S3P and PLARD II interventions were in alignment with the government systems, but at a cost of decreased effectiveness and efficiency. The plans did not sufficiently take into consideration challenges posed by administrative procedures (e.g. slow approval processes,) poorly-functioning financial transfer mechanisms to districts, and poor-functioning M&E systems. There was also duplication of support as the S3P approach overlapped with operations of ZARI. S3P also focused heavily on research and trials of long-term commodities, rather than productivity and production, for which substantial resources were made available by the World Bank and also supported through ICI-instrument by Finland.
Impact

Finland’s contribution to ODA in Zambia is small and decreasing, which poses difficulties in assessing the contribution of Finland to progress of Zambian private sector and trade developments. The challenge of the limited data available in AFT annual reporting does not enable assessing results beyond the intervention level of specific projects.

AFT-related interventions have contributed to the AFT Action Plan Results Framework Goal 1: A sound business-enabling environment that promotes private sector activity and Goal 3: Economic activity is based on sustainable use of natural resources (agricultural value chains).

PSDRP II contributed to streamlining/modernizing investment and business procedures with some concrete results: one-stop-shops to facilitate registration of business; e-services, and public-private dialogue, etc. Impact on ease of doing business through better regulatory frameworks and streamlining procedures and FSDP have resulted in a significant increase in financial inclusion. ZGJP is shaping practices and behaviour towards green building, which is demonstrated through incorporating green building and construction in the curriculum of one university and two construction schools.

In the agriculture sector there is evidence of increased agricultural diversification, productivity gains, access to financing and financial services, technology and value addition to farmers but at a relatively high cost. Projects were designed with a production focus and not linked directly with markets. A value chain approach and (sub) sector focused approach is likely to have more possibilities for impact creation along supply chains (and these could eventually be extended to Finnish markets).

PLARD I & II contributed to applying affordable agricultural technologies which increased productivity. The value chain approach adopted showed benefits in a small scale and in the local markets. SIP has established a sample of the Public Private Partnership (PPP) model and thereby contributed to commercialization of agriculture. More efficient and professional management was achieved by involving AMSCO through LCF support by the Embassy to provide support to farmer companies. ZNFU CSP II has created innovative ways to accessing financial services to smallholder farmers (Lima credit scheme), easy access to payments by using e-paying services (visa), and inputs by e-voucher system, and advice through e-advisory services.

PSDRP and FSDP have been government-driven with some direct yet limited private sector participation. The Business in Development Facility (under the Cabinet Office) brought in more transparent and open processes and methods in dialogue between government and private sector and sector-specific or issue-based groups. Private sector in Zambia is very fragmented, with a lot of internal competition, and it does not have one unified voice to engage in dialogue with the government.

Regarding influence on policy dialogue, a significant success was Finland’s ability to negotiate with the government to start up the FISP e-voucher system. It involves input procurement by allowing the private sector to play the leading role in delivering inputs to farmers and allowing more freedom of choice.
of inputs to diversify production from maize and free up the FISP resources to invest in the agricultural drivers of growth such as livestock, extension and irrigation. Massive subsidies have stifled agricultural diversification, crowded out the private sector and left few resources to invest in proven engines of agricultural growth such as irrigation and extension. The E-voucher system has now been pilot and is ready to be further extended. More lobby and advocacy is needed to allow alternative approaches in the agricultural sector.

**Sustainability**

Sustainability prospects of current AFT-related interventions in Zambia are limited, particularly in the agricultural sector, where projects were ended when they were still not economically viable.

In the private sector basket funding, regulatory reform and new business systems and processes were developed within the PSDRP and these are mostly sustainable.

There is mixed evidence on the sustainability of public-private sector dialogue: the public and private sector in Zambia, in spite of growing experience in tripartite social dialogue and multi-stakeholder cooperation, are still far apart in terms of culture, approaches and interests.

Possibilities to scale up “green construction” depend on market prices for housing and these are not very secure in the current economic situation. This is a threat to the sustainability of the Zambia Green Jobs Programme (ZGJP).

Sustainability in multi-bi projects (SIP II, S3P) depends on the commitment of multilateral organizations (ADB/IFAD) to continue to fund these projects on their own or with support of other donors.

In the case of SIP, it seems that additional feasibility studies will be funded (ADB – Africa Water Fund) using the modality developed within SIP. Reaching the original acreage goals will require looking for large additional investments.

S3P is now at the stage where it is assessing the impact of the funding gap created by the ending of Finland’s support. In case of bi-lateral PLARD, S3P was to function as a support programme in the same geographical area. However, delays in S3P implementation created a situation where PLARD and S3P did not operate in parallel and therefore could not have a proper planning phase on how S3P could actually support post-PLARD activities.

ZNFU is a member-based organization and will continue operations and is expected to be sustainable as long as it can secure the support of its members.

Regarding the LCF, Zambian CSOs are largely donor-dependent but in case of private sector support, there are some partners in the portfolio with a clear potential to become sustainable (e.g. Rent-to-Own).

**Complementary, Synergy and Finnish Value Added**

Finland’s selection of AFT-related private sector development and agriculture sector support projects and programmes is based on the Joint Assistance Strategy Phase II (JASZ II) for Zambia, the broader harmonization and alignment agenda and its donor division of labour. Finland’s AFT contribution is relatively
small, but is considered highly relevant and valued in these sectors, especially the long-term commitment and strong sector leadership when leading the Cooperating Partner (CP) coordination groups. Finland has identified specific sectors where it has a comparative advantage because of specific competencies or as a result of long-standing cooperation, which has provided added value to Zambia. Finland’s AFT-related support in PSD and agriculture is well coordinated and in many cases jointly funded with other development partners but again, this cannot be attributed to the AFT Action Plan. Specific Finnish value added (in energy, sustainability, forestry, ICT) that is mentioned in the AFT approach is not tapped upon in Zambia.

Internal coherence of AFT-related private sector interventions is good. The PSDRP II tackles business regulations and systems. FSDP addresses financial inclusion and access to credit, which is a major constraint for MSMEs, and MSME development is also a priority in PSDRP. Support to enabling environment for MSMEs again supports implementation of activities under the ZGJP. The ZGJP design is coherent and responds to underlying challenges of promoting sustainable enterprises and the creation of decent green jobs through private sector development with the Finnish Technical Research Centre (VTT) involvement to design green curricula and provide support to architects on ‘greening’ of construction.

There has not been complementarity with the regional programmes. LCF has complemented and filled gaps of poor-performing agriculture sector projects. For example, to mitigate the SIP project shortcomings, the Embassy commissioned AMSCO through LCF support to strengthen the PPP small-scale irrigation farmer companies. This resulted in better-functioning company boards and recruitment of professional staff for the irrigation company. This is a positive example of one modality supporting and reinforcing the other, although this support will still not be sufficient to solve all problems and achieve original acreage and production targets of the SIP. Similarly, a positive example is the intervention on capacity development of result-based M&E of MAL to support alignment of PLARD II with government systems. Both examples are, however, small support projects to previously poor-performing large projects, and therefore effects have been rather limited.

Currently potential synergies between Finnish development instruments, including AFT-instruments and portfolio, have not been fully tapped. A noticeable drawback is the limited use and thereby complementarity with private sector and other available instruments, mainly due to fragmented management of different instruments. AFT-coded projects are managed in different departments without effective coordination. Most instruments are not managed by the Embassy or by the regional department at MFA, and there is no mechanism within MFA that allows the Embassy to influence the design and use of the instrument and to work on more complementarity of different interventions.

Team Finland work has the potential to contribute significantly to AFT implementation. Interviews reveal that the role of the Embassy as a facilitator in transitioning from ODA to facilitating business partnerships and trade opportunities is not fully recognized and sufficient human and financial resources are not provided to enable a successful transitioning process.

Finland’s AFT contribution is considered highly relevant and valued, especially the long-term commitment and strong sector leadership when leading the Cooperating Partner (CP) coordination groups.
Cross Cutting Objectives

Crosscutting objectives have been addressed to a varying degree, particularly gender (quotas, disaggregated data, specialists, gender budgeting, LCF targeted projects) and disability (LCF projects). Climate change and environment have received less emphasis. Data on crosscutting objectives, when collected, are rarely analysed and used as a management tool. Evidence of a clear AFT-related HRBA focus is found in contextualizing the “decent work” concept at the country level in the ZGJP with ILO and the LCF funded work with trade unions and workers’ associations.

In the Country Strategy monitoring framework, HRBA and CCOs have not been addressed explicitly, e.g. with specific targets. It is indicated that they will be mainstreamed in all interventions. However, as specific targets have not been set, HRBA and CCOs have not been systematically included in the country programming, measured and systematically reported on (apart from # of women/men when data is available). This has affected whole programming of interventions, including the AFT-related interventions. References in the CS are made to needs assessments realised among women and easily marginalized groups; provision of matching grants; promotion of labour saving technologies, ICT extension and access to land, markets and credit.

Result-based management

The AFT Action Plan has not had positive impact in terms of institutionalizing Results Based Management (RBM) at the country level in Zambia. The AFT Action Plan has not functioned as a relevant RBM tool for programming, implementing, learning or increasing accountability in the country. It has not functioned as a systematic framework and process to help with strategic planning and priority setting, and seeing how interventions jointly contribute to higher-level development and AFT-related objectives. It did not enhance coherence of the portfolio, as it was not integrated in the CS formulation.

Guidelines that were not normative, that did not have clear accountability measures and proposed indicators that were not in synergy with the CS have resulted in poor efficiency in operationalizing the AFT in Zambia. Results-reporting is hindered by fragmented management of different instruments, inadequate data and weak results information provided by the implementers of different aid instruments.

Lack of efficiency of operationalizing the AFT Action Plan in Zambia can also be attributed to insufficient training and country level support in various aspects of RBM and the AFT Action Plan itself. The Embassy is aware of the AFT Action Plan’s existence but it has not guided programming. AFT has been more of an umbrella (a retro-active construct) than a planning and steering tool. Ownership of the AFT Action Plan is clearly with the MFA, much less at Embassy level and non-existent at the recipient country level.

Involvement of the Embassy in AFT remains largely limited to annual upwards reporting to MFA. This, together with the fact that there has not been systematic guidance and support or effort to discuss how to better integrate AFT in the CS process, has adversely affected efficiency. AFT-related interventions within the CS are reported on as part of the CS process, though, but not as a result of
the AFT-related monitoring. Learning takes place at the Embassy when AFT-related projects/programmes are discussed internally as part of the CS process but this cannot be attributed to the AFT Action Plan.

The AFT Action Plan has remained primarily as an MFA instrument and not linked to the CS programming process for better integration at the country level. The CS programming itself faces difficulties in incorporating instruments for promotion of the AFT agenda and PSD due to its bilateral programming focus. An effective CS or transition strategy should go beyond MFA by involving many other stakeholders and instruments. The AFT Action Plan and related CS planning process and budgeting are not adequately linked with each other.

M&E and reporting on AFT-coded projects do not measure outcomes and impact but mainly remain at the level of outputs. Indicators and monitoring of performance is still a challenge. Aggregation of results is not feasible but project level results and impacts can be measured and evidenced. In most cases there are no data available on required AFT indicators (apart from # of jobs created), which reduces relevance and validity of reporting from the Embassy to the MFA and retro-alimentary feedback of MFA back to the Embassy. AFT-specific reporting has not enhanced dialogue between MFA and the Embassy, let alone recipient countries.

In the transitioning process, in the shift from ODA to new business partnerships and promotion of trade, the role of the Embassy is not clear, nor is the Embassy adequately resourced. In this regard, current plans of the Embassy in Zambia to shift more towards being a “knowledge-hub” for promoting these business partnerships and trade opportunities and having a strong focus on creating these linkages is very relevant and strongly supported by the Evaluation Team.

4.3 Vietnam

Relevance

AFT is particularly relevant for Vietnam as it has recently progressed to the Lower Middle Income Country status. As a result, official ODA, including AFT, will decrease and phase out towards 2018, while other ODA-funded projects such as concessional credit projects will continue beyond 2018.

More than in other core partner countries, economic relations will shape relations between Finland and Vietnam in the future. Finland’s country strategy for Vietnam includes elements of the AFT action plan and has a relatively strong Private Sector Development focus with emphasis on green economy, natural resources, entrepreneurship, innovation and job creation. Through these PSD elements, during the final ODA years of cooperation, Finland has to gradually prepare for a new era of economic cooperation and trade. Transition from ODA and AFT to new partnerships is geared towards strengthening of productive infrastructure, production capacity and trade. The use of PSD instruments to enable this transition is required in Vietnam. So far this is only done to a limited extent, in spite of relatively high demand for Finnpartnership support in the country. Also Finnfund is only present in the country through a small number of (regional) equity fund investments.
The AFT Action Plan has not been relevant in Vietnam, as it is not well known among the current embassy staff and not at all by external partners. As a result, the AFT-AP has not directly guided programming on AFT activities. The AFT-AP has mainly remained as a tool in the hands of the MFA, used for monitoring and reporting, but not to guide and steer interventions.

AFT-related interventions are well aligned with the Social Economic Development Plan (SEDP) of the Government of Vietnam and with sectoral policies and strategies (GoV 2011). The IPP II project is widely considered a good model for PSD and it is the current flagship of Finland’s development cooperation in Vietnam.

The ICI and LCF instruments have been relevant for AFT-related interventions. There have been a few projects that supported female entrepreneurs and provided support to the fisheries sector (HAWASME, VCCI and others), which contribute to private sector development and trade. While these projects support private sector development and have resulted in some exports from Vietnam to Finland, while they have also included a focus on gender, environment, equality and human rights.

The Finnish PSD instruments have not been much used, although Finnpartner-ship received a significant number of requests from both Finnish and Vietnamese companies to engage in business relations. Finnfund has no direct investments in Vietnam, but only participates in regional and national investment funds. Finnpartner-ship has provided support to some BPS projects, but only a limited number have materialised. The amount of newly established partnerships between Finnish and Vietnamese companies that have resulted from Finnpartner-ship and Finnfund activities is limited. Currently, the recent BEAM facility provides a better perspective for business linkages due to its linkage with the IPP project innovation focus.

Finland’s expertise in Water, Forestry and ICT sectors is highly appreciated by the Vietnamese counterparts although Finland is in a process of phasing out from the water-sector by the end of 2016. In this sector also concessional credits were highly appreciated by local partners. Some concessional credit projects will still continue, but no new ones have started. Considering the importance of increased private sector involvement in Vietnam in the light of the transitioning process toward economic cooperation, there is a risk of losing contacts in a sector, in which Finland has a great deal of expertise and it has built a good reputation. The Finnish Water Forum is also still pursuing continuation of contacts and projects in Vietnam, based on successful experiences in the past. As the economic situation in the water sector in Vietnam has changed, there is a clear need for updating and reviewing Finland’s business strategies in this sector.

Denmark and the Netherlands have invested a great deal in transition models towards an economic partnership with Vietnam and these countries have developed specific sets of instruments for these operations. These models and instruments are greatly appreciated by the Government of Vietnam and also by other development partners. These stakeholders underscore the importance of specific efforts and investments in building economic relations in this context of transition.
Effectiveness

The national SME sector is lagging behind the international SME sector in Vietnam. While there are many international companies with sophisticated technologies and production methods in Vietnam, most Vietnamese SME’s are still working at a very small scale and with old production technologies and manual labour. Many of the traditional instruments for private sector development reach out only to larger enterprises, and also State Owned Enterprises (SOEs) receive a great deal of support. Simultaneously the national Vietnamese SME sector is neglected and lacking in support projects and instruments. This means that a large percentage of companies in the SME sector, estimated at 90% of the total number of enterprises, largely work independently. This missing middle in Vietnam will remain outside the scope of international economic relations, when no effort is made to develop supply and value chains. Finnish AFT projects have gradually focused more on SME’s but the attention is still rather new and modest.

The Finnish embassy has limited staff resources to develop and implement a transitioning strategy towards economic relations and trade. Experiences from Denmark and the Netherlands show that building such relations requires a lot of time and effort. Mere downsizing of budgets and staffing without a clear strategy is highly unlikely to result in changing of relations with Vietnam. There is a considerable risk of weakening relations and partnerships in specific sectors if no further actions are taken. This is a priority in the review of the Country Strategy for Vietnam. A transitioning strategy also requires presence of Finland in Ho Chi Minh City (HCMC), where most of Vietnamese economic activity and trade is situated. Currently, this presence in HCMC is too limited. The embassy has no fixed staff in HCMC and there is only presence of Finpro with one staff member.

The linkages and cooperation between the Embassy (Team Finland) and the private sector engagement instruments are not strong. Finnfund is only marginally active in Vietnam and although Finnpartnership has realised missions and visits, not many Business Partnership projects and linkages have materialised. There has not been any regular exchange of information and joint strategizing between Team Finland in Vietnam and Finnpartnership and Finnfund to investigate to which extent these instruments could benefit and complement other AFT interventions for private sector development and trade. This is particularly relevant for the IPP II project where business start-up companies could benefit directly or indirectly (through equity funds) from these instruments. IPP II currently works with Tekes (BEAM) and through this cooperation contacts are established, although mainly with the universities. At the same time visits of companies to the SLUSH events in Helsinki have been effective in establishing useful contacts.

Finland is not yet working systematically with supply and value chain development approaches in its projects in Vietnam. In the IPPII the focus is very much on business start-ups and in the Forestry Management Information System project (FORMIS), the focus is by design on the Government. The project and its management information services are not yet rolled out to the private sector in Vietnam and so far this limits the possible effects and outreach of the
project on value chain development in the forestry, wood and furniture sector in Vietnam. With the Vietnamese Chamber of Commerce and Industry (VCCI), some attempts were made to develop value chains and exports to Finland. In a cold-water fish-farming project, international linkages were used to develop research activities and interventions focusing on small and local markets in Northern Vietnam. It appears that sometimes elements of the value chain approach are supported, but in relative isolation. This can be illustrated with the example of the FORMIS project. Management information can increase supply of sustainable wood that can become available for building or furniture industries. A few building and furniture companies have been supported to expand their businesses and trade. In one case by a Finnpartnership project and in a second case through a regional equity fund in the Finnfund portfolio that provided finance to a plywood firm. Possibilities for active linkages exist, but they require active support to mature.

The fragmented portfolio of AFT projects, already observed in the other two country studies is also seen in Vietnam. There are several examples of separate projects and partners that were supported without mutual exchange of information or exploration of opportunities for cooperation. The World Bank Group Infodev project supported an M-lab and ICT incubation centre in HCMC with significant Finnish investments but this centre is not linked with the current IPPII project. Possibilities for cooperation between IPP II and M-lab were explored but not considered feasible. An aquaculture project in Northern Vietnam is not linked with another project in the fishery sector with VCCI. Further, IPPII is negotiating support from equity funds to provide equity to start ups, but information is not exchanged with Finnfund, while both IPP and Finnfund have contacts with the same equity fund. It is not that such linkages would always be the optimal choice or viable, but more exploration and exchange of information would be expected among different Finnish supported projects.

The Danish and Dutch experiences in Vietnam have shown that it is possible to remain a partner in policy dialogue even without an ODA relation. Such dialogue is done primarily based on technical expertise and on exploration of economic opportunities. Finland’s current relation with the Ministry of Science and Technology (MOST) in the IPP project is an important asset for Finland in this respect and the Finnish expertise in ICT and innovation is highly appreciated. The relation with MARD (through the FORMIS project) could also be further developed and nurtured.

Departments and Embassies report annually on AFT to MFA as well as on other ODA interventions. Although they receive general feedback on their results-based reports from MFA in annual memos, the specific feedback on AFT interventions is limited. The Embassy functions merely as an information provider for AFT reporting. Reporting on the AFT Action Plan is not used to improve planning and implementation or as a learning tool to improve AFT project implementation.

Efficiency

Previous evaluations have already observed that the portfolio of Finnish development projects is fragmented. There are too many small projects under dif-
Different support modalities and instruments, on which information exchange between MFA departments, embassies and implementing partners is limited. This limits efficiency of implementation. This fragmentation also includes AFT projects, but it is certainly not specific only to AFT interventions in Finnish aid.

Regional and global multilateral projects have not been well linked with Vietnam country level actions. The Mekong Project Development Facility (MPDF) ended with no follow-up, while there could have been interesting initiatives to follow up also in other projects. Already mentioned was the InfoDev project that ended in 2013 without follow-up. The M-lab in HCMC should be considered a “lost” investment, which could not be even accessed during the evaluation visit. The IPP II has explored possibilities for cooperation with M-Lab but it was not considered feasible and the HCMC incubation centre application for a systems project was not successful. The HCMC incubation centre is now requesting support from the Belgian Government to continue its operations. The Environment and Energy Partnership (EEP II) project is better coordinated and linked with other country-level interventions in Vietnam, and these linkages are now further intensified because EEP II is, since the start of 2015, managed by the Finnish Embassy in Hanoi.

The process of downsizing budgets and portfolios necessarily also comes together with downsizing of staff resources at the embassy. The small teams will be less costly but they will also have more difficulties in producing effects and to pro-actively create new directions and relations. Return on investment in human resources for establishing and strengthening new economic and trade relations is difficult to measure, but the experiences of Netherlands and Denmark in Vietnam indicate that there has been a positive return on such investments in terms of increase in trade, particularly in importing products from Vietnam and in the case of Denmark, also in exports to Vietnam.

Impact

The impact of Finnish AFT in Vietnam is evident, although it is localised and focused on specific sectors and partners. Finland is a small donor in a large country and therefore Finland cannot expect much more visibility than it already has. The Finnish strategy to focus on only a few sectors (Forestry, ICT and through the regional EEP also energy and environment) and preferred partners (MOST) is therefore both justified and necessary.

In the past years, Finland has also achieved impact in the water sector in Vietnam, which was still referred to by many stakeholders. The Finnish expertise in “clean water” is considered of high value. Finland is currently phasing out its support to the water sector in Vietnam towards the end of 2016. In the light of the current transition process towards economic relations with the country, the withdrawal from the water sector (important socially and economically) seems a squandered opportunity for high levels of impact as well as introducing possibilities for private sector participation. A new approach would require revisiting business approaches in this sector. It should be noted that there is a highly committed public-private partnership in Finland, the Finnish Water Forum, which could continue to pool resources for this sector in Vietnam.
The impacts of the IFC MPDF and the World Bank Group InfoDev projects have remained limited to the implementation period of these projects. Since these projects were not followed up by other initiatives, the impact diminished over time. Some years after the completion of these two projects, results and impact are no longer evident. Additionally, the current Embassy staff had very limited knowledge of these projects.

As was already observed under the section on relevance, the national Vietnamese SME sector generally has low productivity and product quality and is not competitive with larger (international) enterprises. Therefore, impact of the limited amount of projects that target SMEs remains limited. In order to ensure more impact on the Vietnamese SME-sector, more and innovative PSD support and financial instruments will have to target the Vietnamese SME sector. Trickle down capacity and productivity effects from international companies to the SME-sector seem limited, but through systematic supply and value chain development approaches better results could be achieved.

HAWASME is a positive example of successful long-term LCF support resulting in increased revenues by the interviewed members of this Women Entrepreneur’s Association. Increased incomes are reported in ceramics, garment and post-cards production and sales. HAWASME members employ a significant number of female employees and people from ethnic minorities. 20% of members export their products. Also the ICI support to Research Institute for Cold-Water Fishery in Hanoi has had an important effect on livelihoods of ethnic minorities in Northern Vietnam (in the Sapa-region). Although these impacts can only be seen at the micro-level, they are relevant because they benefit specific priority target-groups through poverty reduction.

**Sustainability**

The IPP and FORMIS projects as well as some ICI/LCF projects have not yet developed a sufficiently clear and elaborated vision on sustainability. In spite of considerable efforts in the IPP II project to increase coordination and collaboration, both projects still require more follow-up and linkages with other instruments, initiatives and business partners to increase possibilities for sustainability and continuation of the activities. In relation to FORMIS it is relevant that more direct linkages with the private sector are established as they will be important users of FORMIS. Now that ODA is phasing out by the end of 2018, discussions with MOST and MARD should be started immediately to be able to link them with future instruments and partners and to develop sustainable models for service delivery and finance provision.

The availability of investment support for SMEs in Vietnam is limited and Finland does not have the instruments for this beyond Finnpartnership. Finnfund’s investments through regional equity funds only reach the top segment of the SME sector. Vietnamese owned SME’s are often excluded from this support. To establish more inclusive and sustainable financial services SMEs and local financial institutions should be supported. Additionally, international companies could be supported to strengthen linkages with second and third tier SME suppliers in their supply chains and to support them with capacity development and finance.
Complementary, Synergy and Finnish Value Added

Finland’s expertise in specific sectors is highly appreciated and has produced added value in Vietnam according to many local stakeholders, as already observed. While ICT and forestry have remained in the portfolio, in the most appreciated and well-known sector, water, Finland’s relations are rapidly diminishing.

The dialogue and cooperation of Finland with the other development partners in Vietnam are good. There is an exchange of information and regular meetings in donor working groups. Finland’s expertise in specific sectors is clearly recognised and utilised.

The different ODA and AFT instruments and channels (Bi, Multi, LCF, ICI and PSD) were not aligned and coordinated in Vietnam. Particularly regional and multilateral projects that were implemented at regional level ran almost entirely parallel to the Country Strategy, even while there were direct interventions on the ground in Vietnam. The regional EEP project is an exception and this project, since 2015, is now followed up by the Embassy in Vietnam.

The Private Sector instruments, Finnfund and Finnpartnership, are weakly linked with other development support instruments and the strategic country programme for Vietnam. With Finnfund, only in the framework of the EEP has there been exploration of possibilities for cooperation, although with no success. With Finnpartnership, there are only occasional contacts and exchanges during mission visits in Vietnam.

The small LCF and ICI projects in the Embassy’s portfolio that address private sector development and trade are complementary to the rest of the AFT portfolio in two ways: a) these projects ensure that crosscutting objectives are considered in AFT interventions by addressing important priority target groups, such as women entrepreneurs in HAWASME, which integrates gender and human rights objectives and ethnic minorities in the cold-water fishery project in the Sapa region; b) smaller LCF and ICI projects can serve as a mechanism to spot “talent” for follow up projects and investments to further support private sector development and trade in specific regions or sectors.

Cross Cutting Objectives

In the IPP-project, in spite of attention to gender in the design and planning, the evaluators have not seen a clear gender approach and strategy to support women in entrepreneurship development and business incubation. Although there are women among the start-up companies in IPP, an increased effort in supporting women in setting up businesses could result in more female owned businesses in Vietnam, which is a focus area in the AFT action plan. There is one LCF project (HAWASME) that targets women entrepreneurs, which is both positive and needed. As a whole, the issue of female entrepreneurship could and should be more integrated in all business development projects.

Environment is present in the AFT portfolio in Vietnam and Finland has a strong reputation in this area. However, with the downsizing of the portfolio it is becoming more challenging to remain a relevant partner for other players in this sector.
Human rights, or more specifically labour rights, are least integrated in the AFT portfolio. Yet a human rights focus is relevant in job creation and to promote and ensure decent work. In Vietnam this does not only include the national labour market as Vietnam is also exporting large numbers of workers abroad. Representatives of the Ministry of Labour (MOLISA) mentioned that in the past, Vietnamese health workers were trained to work in the health sector in Finland, although this fact was not known to the Embassy. This aspect of trade and international economic cooperation is not yet integrated in the AFT, although the new FDP mentions the issue of migrant workers.

4.4 Effects of AFT on employment and trends in economic growth and trade in country studies

The Finnish Aid for Trade Action Plan at the highest impact level (see section 3.2.2) states that it aspires for the “eradication of extreme poverty and securing a life of human dignity for all in accordance with the MDGs”. At the outcome-level it wants to realise “an inclusive green economy that promotes employment” and “sustainable management of natural resources and environmental protection”. The private sector is considered the main vehicle to “create decent employment and opportunities for entrepreneurship for all”.

Implicit in the AFT action plan’s result framework remain the aspects of “Finnish added value” in specific sectors and the target to increase Finnish private sector engagement in AFT activities in partner countries, through increased investments and trade. These aspects were mentioned in the AFT Action Plan and now also feature prominently in the new Finnish Development Policy of 2016.

Therefore, it is relevant to investigate, if in the context of the AFT activities in the partner countries, noticeable changes and developments were achieved at the highest impact level, even if these aspects were not explicitly included in the results framework.

This analysis covers three levels:

1. Number of jobs created by AFT activities (outcome indicator of the AFT action plan);
2. Development of poverty and economic growth indicators in the country studies;
3. Development of trade in the country studies and between these countries and Finland.

4.4.1 Number of jobs created by the AFT action plan

The Aid for Trade Action Plan was designed in accordance with the MFA’s RBM approach and principles and it contained outcome indicators for the overall objective, specific objectives and focus areas. The ambition was for all AFT projects to generate data on relevant indicators on each specific project.

A start with the central monitoring of AFT projects was made in 2013, but only a limited number of AFT projects were registered in the outcome framework. In
2013, a total of 21 projects were registered in seven different countries. Three regional projects were registered and four global (including multilateral) projects were included. Only one project (the regional Trade Mark East Africa project) provided some reporting information on Objective 2 and the two underlying focus areas. No information was provided on the overall objective of the number of jobs created.

In 2014 monitoring information improved somewhat, but still remained very limited. Only 53 projects (covering 15 countries, 6 regions and 18 global projects) were included in the results framework and on a mere 18 projects, data on indicators was provided. Discipline on reporting was best among the global (including multilateral partners) projects, of which 12 out of 18 projects provided information on the AFT results framework. In this group also Finnfund and Finnpartnership provided basic monitoring information.

This increased availability of monitoring information among the global projects is illustrative of the fact that the AFT action plan was also more known among the multilateral AFT partners and the private sector development facilities of MFA. Even while Finnfund states that it is formally not guided by the AFT AP, it did provide basic monitoring information on the AFT indicators.

At the level of the main objective of the AFT action plan (number of jobs created), only four projects provided information (Table 6)

Table 6: Monitoring AFT projects on objective-indicators AFT results framework

<table>
<thead>
<tr>
<th>Project</th>
<th># jobs created</th>
<th>Of which # women</th>
<th>Of which # men</th>
<th>Information on other indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finnfund</td>
<td>9,784 (and 25,010 (indirect jobs, of which 12,016 for women)</td>
<td>2,148</td>
<td>7,636</td>
<td>Focus theme 2a: Export Revenues 4,255,467</td>
</tr>
<tr>
<td>Finnpartnership</td>
<td>1,672 (1,283 directly and 389 indirectly employed)</td>
<td>518 (directly)</td>
<td>765 (directly)</td>
<td>Focus theme 1:12 new enterprises FDI: 35,740,00</td>
</tr>
<tr>
<td>Multi-Stakeholder Forestry Programme (MSFP) in Nepal</td>
<td>7,019 (of which 4337 vulnerable groups)</td>
<td>2,667</td>
<td>4,354</td>
<td>Focus theme 1: 96 new enterprises (and 87 old)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Focus theme 3: 1.5% GDP growth</td>
</tr>
<tr>
<td>EEP in SADC and East Africa</td>
<td>877 (including for 191 youth)</td>
<td>121</td>
<td>154</td>
<td></td>
</tr>
</tbody>
</table>

Source: Monitoring Framework AFT (2014), MFA
The lack of any relevant reports from most AFT projects and the inconsistencies in data in Table 6 above clearly illustrate that there are major challenges in reporting on these basic indicators. Finnfund and Finnpartnership speak of direct and indirect employment creation, while the MSFP in Nepal suggests that under the number of jobs there are also benefiting groups. In the case of the EEP project, the gender aggregated data does not match the total number of jobs created. Another important bottleneck is that the sources of information are the companies themselves, and this information cannot be cross-verified from any other source, as such information is deemed confidential.

This confusion in the AFT reporting increases in relation to the other indicators. Finnfund reports on export revenues, while FDI would have seemed more relevant, and the AFT reporting matrix doesn’t show in which currency amounts are reported. Finnpartnership reports on FDI and it is also not clear in which currency. The MFSP reports GDP growth under the indicator of trade insertion, although GDP growth is not used as a reporting indicator. Under Goal 1, enterprise creation, it is not entirely clear if only newly created enterprises are reported or also those already existing.

As a result of these data-incongruences it is impossible to aggregate data on the reported AFT results. Even if more discipline is introduced in submitting monitoring information on the AFT plan, it will not be possible to analyse and synthesise this information, because the interpretation of the indicators is too diverse.

In addition to this monitoring information, there is a wealth of monitoring data available in MTRs and final evaluation of many projects, particularly on the bilateral projects. However, none of these evaluations have looked at the AFT results frameworks to generate systematic information on the achievement of the objectives, goals and focus themes in the AFT-AP. As a result of these monitoring challenges, it is impossible to assess the results of the AFT action plan. Incomplete and fragmented information from monitoring reports and the evaluator’s assessments on results of projects in the country studies points towards effects on job creation (overall objective) and creation of enterprises (goal 1), but these effects cannot be quantified. Effects of AFT projects on goals 2, 3 and 4 of the Action Plan indicators are cannot be analysed because these indicators are not sufficiently uniform and have been interpreted differently in different contexts.

4.4.2 Developments in poverty, economic growth and trade indicators in country studies

After having established in the previous section that only a very partial assessment of the achievement of AFT Action Plan is possible due to the lack of appropriate reports, it is clear that it will be impossible to attribute higher-level impacts on poverty reduction, economic growth and trade to the implementation of AFT projects.

The developments of trade between Finland and its three partner countries have been negligible for Zambia and Tanzania, while with Vietnam trade levels are significantly higher. Both imports from and exports to Vietnam increased, but relatively much less in comparison to Vietnam’s trade with the rest of the
world. Therefore, Finland’s value as a trade partner with Vietnam has been declining in relative terms.

Comparing this development with two of the reference countries in the AFT evaluation, it could be observed that for Denmark, both imports and exports with Vietnam increased significantly more than world-trade volumes and this has made Denmark a more relevant trade partner for Vietnam in the past year. For the Netherlands, similar development can only be seen in imports from Vietnam but not in exports to the country. Clearly, the focus of the Netherlands in its trade with Vietnam has been more on imports than exports and investments.

The increased importance of the Netherlands (only as an export market) and Denmark as a trade partner of Vietnam goes hand in hand with significant efforts of these countries in promoting trade and investments, which has not been the case for Finland. In the past years, The Netherlands, through its transitional facility has been able to invest in trade relations and to establish significant trade with Vietnam. Denmark did the same through staffing support in trade promotion at the embassy and by developing a clear transitioning strategy. In 2012, the Danish Government launched its Growth Market Strategy for Vietnam (GoD 2012). The Growth Market Strategy led by the Trade Council aims at making it easier for Danish companies to do business in Vietnam, especially in key areas where Danish expertise and know-how match Vietnamese challenges and demands. The strategy sets a target of doubling Danish exports of basic goods to Vietnam between 2011 and 2016 and Denmark appears to be well on its way to reaching this target.

Although Finland has tried to engage its private sector instruments of Finnpartnership and Finnfund in trade promotion, this has not reached the expected targets as is illustrated in the case studies on these facilities. Although it is not possible to prove a causal relation between different approaches of Finland vis-à-vis Denmark and the Netherlands in trade promotion and facilitation with trade-volumes, developments in trade volumes would indicate that such a relationship exists.

The comparison between Finland on the one hand and Denmark and the Netherlands on the other in terms of trade with Tanzania and Zambia show remarkable similarity. Trade between the countries is very low and it does not show a clear increase over the period under investigation. The Netherlands ended its development relation with both countries. This was done in a very short period of time, without introducing a transition strategy and facility towards economic relations as was done in Vietnam (and also in South Africa and Colombia). The “cold-turkey” approach of ending Dutch development support has not been replaced by other support modalities and it is likely that as a result, trade relations between these two countries and the Netherlands have not prospered.

The Danish approach to Zambia and Tanzania has also not resulted in significant increase in trade with these countries. While Denmark has few cooperation activities with Zambia, Tanzania continues to be a core partner, where Denmark promotes inclusive green growth and employment. Danish-Tanzanian partnerships are also strengthened in other areas, notably within commercial relations and political cooperation. Denmark seeks a comprehensive approach

Although Finland has tried to engage its private sector instruments of Finnpartnership and Finnfund in trade promotion, this has not reached the expected targets.
by using development cooperation, commercial instruments and political dialogue to foster further commercial cooperation between Denmark and Tanzania with a focus on agriculture.

4.5 Multilateral and International AFT projects

In the framework of this evaluation, specific research was carried out on a selected group of international organisations that have received AFT support. These organisations were all based in Geneva and Vienna, where interviews with representatives of these organisations were conducted in addition to a desk study.

Together the multilateral partners constitute an important part of the AFT commitments of Finland. As was shown in chapter 3, approximately 30% of the total AFT budget was allocated to these organisations in the AFT Action Plan period. The list of AFT projects provided by MFA for the AFT-AP period contains 27 different partners, ranging from multilateral organisations, international organisations to research institutes as well as institutions linked to the European Union.

In consultation with the MFA, the analysis of multilateral organisations was focused to a group of six international partners (five multilateral partners and one international NGO) that were most relevant for the AFT Action Plan. This group is not necessarily representative of the variety of multilateral partners, but it is particularly relevant to trade interventions and to the international promotion of the AFT initiative.

The organisations included in the analysis are: The Enhanced Integrated Framework (EIF); International Trade Centre (ITC), UN Industrial Development Organisation (UNIDO); UN Conference on Trade and Development (UNCTAD); Word Trade Organisation (WTO) (including the Doha Development Agenda Global Trust Fund (DDAGTF) and Advisory Centre on World Trade Organization Law (ACWL), and the International Centre for Trade and Sustainable Development (ICTSD). The support provided by Finland to these organisations is presented on next page (Figure 10).
The interviews with representatives of these multilateral trade partners showed that they were more familiar with Finland’s AFT Action Plan compared to other organisations and stakeholders the evaluators have interviewed. This is perhaps explained by the fact that these organisations have internationally promoted the AFT initiative.

The project frameworks and reporting modalities of the international organisations are usually not fully compatible with the AFT results framework. As a result, it is challenging to analyse results against the AFT Action Plan results framework and indicators. Nonetheless, the level of information gathered and provided by these organisations and their counterparts at the MFA against the results framework has been higher than among other partners and Finnish Embassies.

In many cases, the financial support provided by Finland targets the implementation of the institutional mandates of these organisations, and funds are transferred to trust funds. In some cases, however, support of Finland is earmarked to specific projects, regions and countries. This was the case in the ITC’s in East Africa (Tanzania and Zambia) and also other projects of international partners, such as the World Bank Group InfoDev (Mekong and East and South Africa), International Finance Corporation (Mekong) and International Labour Organizations One-UN project on Green Jobs (Zambia).

While the desk-study and interviews with the international partners in Geneva and Vienna and their counterparts at the MFA indicate that projects were implemented to a satisfactory level, the field studies discovered that stakehold-
ers, including Embassy staff members were less satisfied with the implementation of these earmarked projects on the ground. Usually embassies had little knowledge of these international projects, as they are often not involved in the implementation and coordination of these projects, even if they had been involved and consulted in the identification and design phase. Stakeholders also commented that international organisations are generally far from the field and have no implementation capacity on the ground. They found that the steering of projects was done too remotely with little understanding of the realities on the ground. This does not question the overall implementation of these policy and research oriented activities at the global level by the multilateral organisations, but does question the efficiency the implementation of earmarked projects on the ground, particularly when they are not linked to other Finnish activities in the same country or region.

The multilateral AFT projects are managed from the Department for External Economic Relations in the MFA, and the steering of relations with multilateral partners is done through influencing plans. Thus these multilateral projects are more difficult to align with specific sectoral or regional development policies and strategies. During the country field visits, the consistent feedback received on multilateral projects was that they were inadequately linked and informed of to the Embassies and regional desks.

Although there is a general alignment with the AFT Action Plan, the multilateral projects do not always include adequate attention to specific target groups and issues of gender. In Goal 1 and Goal 4, Finland expresses that women and youth are priority groups in employment creation and entrepreneurship development. Even when these aspects are included in project design they tend to receive less attention during project implementation.

Over the past years, multilateral organisations have generally introduced RBM principles, and the related reviews and evaluations are routine practice. This enables a generally good and complete monitoring of project implementation by these organisations. However, RBM principles are not necessarily in line with the MFA RBM approach and therefore an automatic and close link of reporting frameworks is not always feasible in working with multilateral partners.

The priorities in the AFT Action Plan and in the new FDP of 2016 are relevant for continued cooperation with international partners. These priorities could further focus Finnish support to international partners and ensure sufficient linkages with specific Finnish interest areas, such as renewable energy, environmental protection, ICT, and gender. New specific themes that become more important and that can be linked with these Finnish interest areas are climate change, green production, green finance, food safety, accreditation and certification, online learning and digital economy.

4.6 Comparison with Private Sector Instruments of Denmark and the Netherlands

The ToR of the evaluation also requested an analysis and comparison of private sector development instruments with similar instruments of other donors. This analysis is presented in Annex 6 of this evaluation report. In this section
a short summary of the main findings of the research done in Denmark and the Netherlands is presented.

**Denmark**

Denmark is in the process of making a radical policy shift towards more business-driven development cooperation. The private sector is seen as a partner for policy-making rather than a beneficiary. There seems to be a broad consensus for the policy shift with civil society, trade union and other interest groups support. The Government actively seeks dialogue with all actors on the new policy.

The changes are built upon the policy re-orientation Denmark has already been implementing during the past decade. The business focus has been previously set and the shift from aid to trade was managed smoothly also in the partner countries. The current abrupt change is related to the budget cuts, which put an additional focus on the private sector.

The Danish private sector instruments are newly streamlined although not all the instruments themselves are new. The mixed financing for infrastructure projects continues. The guiding principles for fund structures and for special funds are interesting, as they include various integral safeguard mechanisms.

The Danish Government attaches high importance to impact investing and innovative finance for finding new financial options for the Sustainable Development Goals. The nexus of impact investing and blended finance holds considerable promise for mobilising and deploying private capital for sustainable development and for contributing in significant ways toward the achievement of the Sustainable Development Goals. While there are limits and complexities at this convergence point, there are also innovations and early successes that demonstrate not just potential, but the ability to achieve real, tangible results.

The IFU SME Facility is in the early pilot phase. It links SME partnerships with the perspective of upgrading their business to larger development finance cases. It implies a clear decision to concentrate on a few larger business cases, rather than many small ones.

**The Netherlands**

In the Netherlands, development cooperation policies have already for a long period of time included private sector development instruments. For example, the centre for promotion of imports from developing countries (CBI) was already founded by the Ministry of Foreign Affairs in 1971. The programme for international exchange of Dutch senior experts that is implemented by the Dutch Employers Federation (VNO-NCW) was established in 1978 with support from the Ministry of Foreign Affairs. Both programmes, thanks to their long-term history have gathered significant recognition worldwide.

In the past decades, the Dutch Government has expanded the range of instruments for private sector development support in the Netherlands and abroad. Initially, there were several separate agencies, among them an agency for specific support to the development of international business relations. These agencies were supported by the Ministry of Economic Affairs. Through merg-
ing of different organisations and increased cooperation between the Ministry of Economic Affairs and the Ministry of Foreign Affairs, first in “Agency NL” and later, since 2014, in the “State Service for Entrepreneurial Netherlands (RVO)”, many organisations and facilities that support the private sector in developing (international) business relations are brought together under one roof. The website of Netherland Enterprise Agency (http://english.rvo.nl/) functions as a portal to guide companies to their services.

Long-term and increasing cooperation between the Ministries of Foreign Affairs and Economic Affairs is a key feature in the Dutch Private Sector Development Approach.

With respect to international development cooperation, the year of 2013 can be considered a turning point in Dutch ODA commitments. 2013 saw significant changes being made in development cooperation, such as a historically new and significant decrease of the budget for development cooperation and a much stronger focus in the number of partner countries. Furthermore, the attention for private sector development, although not new in development cooperation, was significantly increased. The changes are described in the policy document “A world to gain: A new agenda for Aid, Trade and Investment” that was published in April 2013.

This policy had a much broader view on international cooperation than before. International relations were looked at in a holistic way, identifying three categories of countries for bilateral relations:

- **Mainly Aid relations** (conditions for development are lacking, conflict and post-conflict): Afghanistan, Burundi, Mali, the Palestine Territories, Rwanda, South Sudan and Yemen. Under this category also regional approaches to security issues are included: Africa Great Lakes region and Central America;
- **Transitional relationships**: Bangladesh, Benin, Ethiopia, Ghana, Indonesia, Kenya, Mozambique and Uganda. Transitioning towards trade and investment;
- **Trade Relationships** (not only in developing world): Australia, Belgium, Brazil, Canada, China, Colombia, France, Germany, the Gulf States, India, Iraq, Japan, Malaysia, Mexico, Nigeria, Poland, Romania, Russia, Singapore, South Africa, South Korea, Turkey, the UK, Ukraine, the US and Vietnam.

In general, the policy document contained a strong plea for more attention to economic relations and trade. It also expended the already existing portfolio of available support modalities for the private sector. In this period, there was also a gradual process to move from the provision of subsidies to the provision of finance and guarantees for private sector companies in their international businesses. The conditions of most financial instruments are market rates, although some subsidy mechanisms or elements are still included in the portfolio.

Another important parallel development in the last decade is the longstanding understanding within Dutch development cooperation of Civil Society Organi-
sations being considered a separate and almost stand-alone support channel, gradually gave way to policies with increased incentives for establishing partnerships and networks and alliances. In the past decade the CSO channel was primarily used by CSO’s that formed alliances for developing funding proposals to the Government. The Ministry of Foreign Affairs also increasingly took the role of partner in these collaboration projects.

In 2007, this approach was opened with a large Government fund (the Schokland Fund) to contribute to the accelerated achievement of the Millennium Development Goals: The Schokland Fund awarded project funding for broad multi-stakeholder partnerships of CSOs, Private Sector Companies and Public Entities.

With the drastic reduction of development cooperation funds in 2013 a new subsidy modality was established, which was much smaller. It continued with the line of establishing partnerships, in which also the Ministry of Foreign Affairs itself takes an active role. The focus of projects has shifted towards more joint advocacy efforts to solve international problems. Private sector organisations can also join in these partnerships.

These examples together constitute a second key feature in Netherland’s development cooperation: promotion of partnerships and broad alliances of organisations, including public, private and civil partnerships.

A third key feature is more specifically related to the Private Sector Development instruments i.e. the Netherlands’s portfolio of subsidy and finance modalities for private sector development and trade is extremely diverse. The instruments together constitute a mix to provide coherent and complete coverage of different levels of cooperation. Additionally, different instruments also include mechanisms for checks and balances in private sector development initiatives.

An important new feature to support the above approaches is the fact that the Subsidy Framework for International Trade Union Cooperation was moved from the Civil Society Department to the Economic Development Department. The international trade union support now complements and balances the Dutch Employers Cooperation Programme (DECP) that is supported by the Ministry. Furthermore, a specific network organisation of SME’s is supported to implement a programme for Corporate Social Responsibility in international SME activities. Together with the earlier mentioned partnership approach, the Netherlands Government is bringing parties together to pool resources in a balanced manner.

A final element in the approach of the Netherlands in international development cooperation is that most support facilities are open to both Dutch and international Companies and that the Netherlands does not support any forms of tied aid. In the Dutch case, this has not raised big concerns among the Dutch private sector, which considers itself very competitive.
5 SYNTHESIS OF FINDINGS AND CONCLUSIONS FROM FINNFUND AND FINNPARTNERSHIP CASE STUDIES

5.1 Finnfund

Finnfund is an important private sector instrument in the AFT portfolio, receiving a substantial amount (19%) of the overall AFT budget. Finnfund is one of the two private sector development facilities that can target private sector companies in developing countries with direct investment support or indirect support through equity funds.

Although Finnfund is part of the AFT portfolio and Government’s ODA investments in Finnfund’s operations are labelled as AFT, Finnfund is only to a limited extent guided by the AFT Action Plan. Finnfund, as a state owned enterprise, is accountable to its owners, the Finnish State, Finnvera and the Confederation of Finnish Industries (CFI) and it responds to the Department for Development Finance Institutions of MFA. This department provides Government steering to Finnfund through annual policy guidance notes, but these notes have not included any reference to the AFT-AP. Upon request of the MFA, Finnfund has been providing monitoring information on some of the key indicators in the results-framework of the AFT-AP since 2014.

The above situation and status of Finnfund makes the evaluation of the institution somewhat complicated in the framework of the ToR of this AFT evaluation. The case study report in Annex 4 contains the findings and conclusions that could be reached within the timeframe and scope of this evaluation, but the evaluators were not able to provide an in-depth analysis on all issues that would enable a comprehensive evaluation of Finnfund. The evaluators encountered issues of confidentiality to protect business interests of companies, which did not allow this relatively limited case study to present and analyse concrete impacts and particularly challenges and problems encountered in investments on the ground.

In spite of these limitations, the evaluators were still able to conduct research on many AFT-related aspects of Finnfund’s activities and operations. These findings could serve as a pre-study for a more comprehensive evaluation of Finnfund in the future. Such a comprehensive evaluation of Finnfund’s relevance, quality of operations and impact will require a more specific Terms of
Reference agreed upon by the Government of Finland (through MFA), Finnvera and CFI, being the owners of Finnfund.

The development impact of Finnfund is considerable in terms of employment creation, fiscal income and microfinance provision. In the past years, Finnfund has managed to shift its portfolio to lower-income developing countries, as a response to a request from MFA in the annual policy guidance notes to Finnfund. However, the use of private equity funds to reach more difficult countries, such as conflict- or post conflict countries has had some drawbacks.

The focus of Finnfund’s investments on projects that have a positive impact on poor population in developing countries is not yet very clear. For example, Finnfund’s investments in microfinance funds that tend to reach the poor more directly than investments in other sectors. These investments are a part of the Fund’s portfolio, but their volumes of the total portfolio are relatively limited. To which extent Finnfund reaches, through equity funds and its direct investments, poor population groups, is difficult to monitor from the reports that are produced on investments. This means that while Finnfund is contributing to the creation of employment and tax-income in lower-income developing countries, it is difficult to ascertain how such effects are distributed among different population groups and categories.

Finnfund’s reporting on its development impact is generally not weighted according to its specific contribution in larger investments and investment funds. Results and impact are reported on the investment as a whole. As other investors do the same this creates problems of double counting of investment results and development impact. To obtain a more realistic and reliable image of Finnfund’s impact, its investment reporting should make clear what are the specific contributions of Finnfund and reflect them to the total achievements of the investee companies.

Even without harmonising directly with AFT reporting and indicators, Finnfund does invest in businesses and economic infrastructures that generate jobs and tax income in poor countries. The projects and funds are generally successful when measured with these two indicators, although there are some exceptions. Some of the investment objects have produced negative development impacts, including adverse effects on local communities that have been negatively impacted by investment projects. Other investments have had to be written off from the investment portfolio, due to insufficient economic viability.

Finnfund supports profitable projects in challenging markets where commercial financing is hard to obtain. As a government-owned development fund, Finnfund always needs to balance three criteria when making its investment decisions: positive development impacts, responsibility and profitability. This balancing act has led to an overall positive rate of return in the Finnfund portfolio, in spite of occasional losses, and in increased economic returns in developing countries in the form of new jobs and additional tax income.

More difficult to measure are impacts in the area of social and developmental responsibility, including key AFT indicators of respect for human rights, gender equity and distribution of development results among the poorer population groups. It is in this area where a deeper assessment and evaluation of Finnfund is contributing to the creation of employment and tax-income in lower-income developing countries, it is difficult to ascertain how such effects are distributed among different population groups and categories.
fund as an impact investor would be necessary. Such a thorough review would also help to develop the in-house investment processes of Finnfund. A particular area for potential development and change would be the careful ex-ante assessment of the development impact of the proposed new projects presented for Finnfund financing. Useful technologies, used by other impact funds, have been developed that make it possible to compare projects from different sectors and make quantified projection of their development impacts over the lifetime of the projects. Including these processes as an integral part of the due diligence processes would improve the transparency and development-orientation in Finnfund’s decision-making.

Related with the challenges of balancing the different criteria is the importance of transparency and a good communication approach. If this is applied at all stages of portfolio management, it is also easier to respond to external concerns and criticism regarding the investment processes and the operations of the investee companies. Full transparency would also allow fast action when concern on issues such as human rights and land issues emerge. Concerns of this type were raised in field research particularly in Tanzania, but in the general portfolio there are examples of past investments in which public concerns were very prominent. With the focal role of crosscutting issues in Finnish development policy, increased openness should be seen as a basic requirement for Finnfund concerning both its own decision-making processes and the operations of its investee firms.

Further, this evaluation again confirmed that Finnfund largely operates independently from MFA and particularly from the regional departments and the embassies at country level. Although there are some exceptions, possibilities for synergy with MFA in trade and private sector support operations are generally not explored. Finnfund’s alignment takes place more at the level of EDFI. Finnfund is an autonomous institution, but it is guided by MFA through the annual guidance notes. However, the guidance and instructions given by MFA in its annual guidance notes to Finnfund have not stressed aspects of alignment of instruments and synergy between development and business development agendas, and have only guided Finnfund on very general terms, such as on investments in Least Developed Countries and return on investment.

The two case studies on Finnpartnership and Finnfund would indicate the need to develop a new instrument for the investments of small Finnish companies in developing countries and countries-in-transition. The current limited mix of investment instruments is not enough to be inclusive and flexible in terms of sectoral scope and geographical area and particularly size of companies. There is a clear gap between the Finnpartnership instrument that caters for small Finnish enterprises to explore new business opportunities in developing countries and the Finnfund operations that invest large amount in mature investees and investment funds in developing countries. The missing middle of SMEs in Finland and in developing countries to start up and expand their businesses is recognised, but not catered for within the existing private sector development portfolio. Finnfund can contribute to filling this gap by leading a process to develop an equity and semi-equity-based financing instrument for smaller Finnish companies. As the unit costs and risk in such investments would be higher than when operating with larger, established companies, the addition-
al costs in promotion, investment processes and field follow-up costs could be compensated to Finnfund from government allocations.

**Main findings and conclusions**

This case study was not able to provide a comprehensive overview of Finnfund’s results and impact on the ground, but the study has shown that the operations of Finnfund are relevant to Finnish AFT and the AFT action plan. However, the steering and guidance of Finnfund by MFA has been rather limited.

Finnfund as a private sector development instrument has been generally successful, because it has been able to support investments and investment funds in developing countries and to a significant extent in lower income developing countries, where lack of finance is a serious bottleneck to development. While doing so, Finnfund has been able to generate a positive return on its investments. In the overall portfolio of investment projects and funds of Finnfund, a small number of projects are criticised by external stakeholders due to human rights and legal ownership issues. A more general criticism voiced is the issue of tax evasion by Finnfund (as also is the case for all other EDFI members) through channelling financial recourses through international tax havens. These issues limit development impacts to a considerable extent but are difficult to calculate.

Finnfund as a development finance instrument caters for larger investment activities or for investment funds. Finnfund does not provide finance to SMEs in developing countries or in Finland to develop and expand businesses through investments. There is a clear need and demand among SMEs in developing countries to become more involved in trade. Also SMEs in Finland are not reached by the Finnfund instrument. The second case study on Finnpartner combined with this case study on Finnfund shows that Finnish SMEs that wish to engage further in international trade and investments in developing countries do not have access to finance.

The dialogue and exchange of information by Finnfund with Embassies and other MFA departments on investment opportunities and partners has been very limited. Finnfund operates largely parallel to other ODA and AFT interventions of the Finnish Government, although there are some exceptions, such as in the forestry sector in Tanzania.

Finnfund as a development finance institution has not developed its transparency and external communication policies and practices to the same extent as the banking sector in general. Confidentiality of specific investment information needs to of course be protected, but at the same time a balance needs to be found with transparency and openness, particularly in situations where public criticism exists, around environmental or human rights issues or legal and tax issues. Finnfund is still facing challenges to deal with communication and transparency issues and is currently working on these challenges.

Finnfund uses environmental and social risk assessment instruments and usually does this together with other EDFI members. In spite of the existence and application of these instruments Finnfund cannot always ensure that...
all its investments fully respect the rights of those affected, in particular the rights of ethnic minorities. Special risk sectors are: a) plantation forests that should only be established on non-productive agricultural land, while ensuring that no property rights are violated and; b) Hydropower projects that require extra efforts in assessment and continuous monitoring of land-rights and human rights issues, because larger population groups can be affected by such investments.

Specific recommendations on Finnfund are presented in the Finnfund Case Study Report in Annex 4 of this evaluation report.

5.2 Finnpartnership

The Ministry for Foreign Affairs launched its business partnership programme, Finnpartnership, in June 2006. Although this decision was based on the same trends and developments in the international development arena that motivated MFA to develop its Aid for Trade Action Plans, the Finnpartnership programme preceded the launching of the AFT AP.

Finnpartnership’s mission is to provide support-, matching- and advisory services to Finnish private companies in starting up and developing business operations in developing countries. Companies are able to contact Finnpartnership experts who can provide guidance throughout the different phases of their initiatives to engage in international business relations, including requests for support in the first steps of developing such business relations. The services of Finnpartnership are provided free of charge. Finnpartnership provides three interrelated services:

- **Business Partnership Support (BPS)** for companies that need financial support for costs related to research and start-up of business initiatives and projects in developing countries. This support can range between 30% and 70% of the total costs of the project, depending on the country of the activity and the size of the company involved. The different percentages of support for BPS projects are used to steer the BPS support more towards Low and Lower-Middle Income Developing countries and to SME’s;

- **A Match Making (MM) Service** to identify business partners for companies searching for international business partners for their projects. This service registers companies based in developing countries in a database. It is not a register of Finnish companies; thus the service primarily caters for Finnish companies searching for a business partner in a developing country;

- **Advisory services** in a) planning and financial advice and b) mentoring services during project implementation.

In BPS, projects or Finnish companies are supported with:

- Partner identification
- Pre-feasibility study, feasibility study
- Business plan
• Social and environmental impact assessment
• Training of employees in the developing country
• Utilizing experts in developing a specific business area of a project
• Piloting technology and solutions, and
• Vocational education and training, and support for local education.

Finnpartnership approves on average 100 BPS projects annually (Figure 11)

**Figure 11: BPS projects approved by Finnpartnership 2010-2015**

![Figure 11: BPS projects approved by Finnpartnership 2010-2015](image)

Source: Annual reports Finnpartnership 2010-2015. BPS Project overview prepared by Finnpartnership for evaluators (Dec 2015)

The BPS project commitments and disbursements by Finnpartnership for the approved projects in the period 2010-2015 are presented in the figure below.

**Figure 12: Finnpartnership BPS commitments and disbursements 2010-2015 (Euro)**

![Figure 12: Finnpartnership BPS commitments and disbursements 2010-2015 (Euro)](image)

Source: BPS Project overview prepared by Finnpartnership for evaluators (Dec 2015)
In the past five years the total annual commitments of Finnpartnership to BPS projects varied between EUR 3.5 and 4.5 million, with the exception of 2012 when less projects and a lower total amount was approved (Figure 12). This is likely to be related to the fact that the MFA agreement with Finnpartnership was renewed in that year.

An important finding from the figure above is that actual disbursements of Finnpartnership to BPS project partners remain far below the committed amounts. In the top-year for disbursements (2011), the disbursements totalled 44% of the approved amounts. The percentages for 2010, 2012 and 2013 are even lower at 37%, 33% and 33%, respectively.

The Match Making (MM) Service of Finnpartnership aims to increase commercial cooperation between Finland and developing countries. The service helps companies and other economic actors both in Finland and in developing countries to seek out new cooperation opportunities. Finnpartnership channels business partnership initiatives from developing countries to companies in Finland and vice versa. The partner-search facility on the Finnpartnership Website only contains companies from developing countries. By design the Match Making Service allows for Finnish companies to explore business opportunities abroad and not for companies from developing countries to find Finnish business partners. However, Finnpartnership regularly participates in international missions and organises business events (Doing Business with Finland) in developing countries, where also companies from developing countries are pro-actively linked with Finnish companies.

A total of 276 developing country-based companies have registered in Finnpartnership’s business matching database by March 2016.

Finnpartnership provides support services and technical assistance to companies in the preparation of their projects and during implementation and reporting. Finnpartnership also provides additional support to companies in doing business matching. Most of this support is given during events and missions to developing countries and occasionally also to companies in Finland.

**Main findings and conclusions**

Finnpartnership is a relevant Private Sector Development facility that responds to important business needs in starting up new business activities in developing countries. However, while Finnpartnership support is one of the few business support modalities that exist in Finnish development cooperation, the facility is not well linked with other relevant support channels and facilities for private sector development and trade related support. As a result, the potential of Finnpartnership is not fully utilised. BPS projects generally result in immediate results and outcomes but their successful translation into development and economic effects is less clear, because follow-up support mechanisms for SMEs using this service do not exist. The Match Making Service of Finnpartnership is a useful support facility but has not led to many sustainable business linkages, particularly not in Finnish partner countries.

Coordination and cooperation of Finnpartnership with embassies and with Team Finland exists, but is mostly concentrated around trade missions and
country visits. The BPS and Match Making facilities are not well linked with other departments and embassies, and information sharing is limited. Awareness of embassies and other departments in the Ministry of specific projects that are supported by BPS is limited to a few examples. Finnpartnership as private sector development facility is housed outside the MFA and operates largely as a separate entity among the Finnish development cooperation instruments.

An important bottleneck indicated by many stakeholders and also already identified in the 2012 evaluation of Finnpartnership is the fact that Finnish SMEs, after receiving Finnpartnership BPS support do not have access to finance facilities to facilitate the actual start up activities and investments, which would logically result from the Finnpartnership support for business identification, feasibility studies, business plans and pilots. The SMEs, after initial support, are wedged in the “missing middle” of support instruments for the private sector. As discussed above, their specific support needs at this stage would mainly be for financing and guarantees.

Also observed earlier in the 2012 evaluation, as well as in this case study, is the fact that Finnpartnership’s BPS disbursements against commitments remain almost alarmingly low. This means that many BPS projects do not materialise or only do so partially, while consuming time and effort from Finnpartnership. The low disbursements are a clear indicator that BPS support is not sufficiently relevant for SMEs to be fully used.

Finnpartnership service facilities (both BPS and Match Making) are based on a demand driven approach that results in thin spread over many different countries and also over different sectors. There is limited overlap with the services of other Finnish actors and support instruments in Finnish partner countries. The Match Making facility is even more detached from other Finnish links and facilities, except in Asia and particularly in Vietnam, where a larger number of local companies are registered in the Match Making database. The spread of the Finnpartnership services over many countries and sectors, though it can be explained by the demand driven approach, poses limits on the efficiency and effectiveness of this support operation.

Finnpartnership’s BPS support to companies seems to be more relevant from the “additionality” perspective than from the “enabling” perspective. BPS support provides a welcome push and accelerator effect on business start-up projects, but it is regularly indicated that these projects would have started also without the Finnpartnership support, although sometimes possibly at a smaller scale. On the other hand, some companies indicate that they do not have access to funds to start up these initiatives and in those cases the retroactive funding mechanism of Finnpartnership’s BPS facility is not very helpful.

The Business Match Making facility focuses on registration of companies in developing countries but it does not provide access to companies from developing countries to Finnish companies. This leads to one-sided Match Making, catering more for the Finnish companies than for the companies from developing countries that are registered in the database. Additionally, the number of companies registered is relatively limited considering the geographic and sectoral spread. Good Match Making requires choice of options and this is not sufficiently provided by the Match Making facility.
Reporting on the BPS projects and Match Making facilities is mostly output focused and where development indicators, such as number of jobs created, are required, reporting becomes more difficult and incomplete. This limits the possibility to learn from successful and less successful experiences. The success stories on Finnpartnership are an attempt to provide more in-depth information on experiences, but considering the large amount of initiatives that are started but not completed or only partially completed, there is a need to learn from less successful experiences and even outright failures.

Private sector companies are beneficiaries of Finnpartnership and they are also involved regularly in consultations and exchange visits. The Finnish private sector does not yet participate as a partner in this initiative (but it does in Finnfund). This could be an opportunity for Finnpartnership to develop closer ties and become more relevant for the Finnish private sector not only with respect to the services it provides itself but also to identify needs and opportunities for other, new support facilities.

Specific recommendations on Finnpartnership are presented in the Finnpartnership Case Study Report in Annex 5 of this evaluation report.
6 SYNTHESIS OF OVERALL EVALUATION FINDINGS

6.1 Relevance

The Theory of Change of the AFT Action Plan is clear and well elaborated and it is valid for the implementation of Private Sector and Trade development-focused interventions. The Theory of Change integrates most historically important Finnish “value adding” sectors. Particularly Environment and Energy (goal 3), Forestry and Agriculture (goal 3) and ICT and innovation (goal 4) are explicitly mentioned. The goals also include, although less explicitly the technical and vocational education services (goal 4). Water as a sector is not included in AFT reporting, although it was historically an important Finnish value adding development sector with considerable private sector engagement. The fact that water is not included as a sector is related to the fact that it is not monitored as a sector in the OEAC CRS monitoring system. Finland is gradually withdrawing from the water sector in some partner countries, and also agriculture is gradually taking a less prominent place in the AFT portfolio. However, for private sector engagement these sectors remain relevant in the future. In this respect it is relevant that both sectors are again mentioned in the new Finnish Development Policy of 2016.

The AFT AP Theory of Change and results framework do not sufficiently integrate public-private partnerships and multi-stakeholder cooperation approaches as mechanisms to pool expertise and resources for AFT interventions. Although the value of PPPs and multi-stakeholder cooperation is increasingly recognised in policy documents, including the new 2016 FDP, this is not yet translated as an instrument and pathway in the AFT Theory of Change.

In spite of the clear design of the Theory of Change, in practice the Action Plan has not been guiding AFT interventions, with the exception of some of the multilateral trade partner projects. In this regard, it has not fulfilled the need of the Embassies or the MFA country teams related to country programming. The ambition to use the results framework for planning, monitoring evaluation and learning from AFT intervention has not been realised. The approach, information requirements and reporting processes have only made a limited contribution to Finland’s country programming. This is not related to design but rather to two other factors:

a. Lack of accountability structure and clear leadership to promote and enforce compliance with reporting. The AFT Steering Group has not functioned as a steering mechanism to ensure that the plan is actively used in the MFA and the embassies. This is largely due to the limitations in the mandate of the SG which does not include accountability and decision-making aspects;
b. The indicators, particularly at the focus theme levels, can be interpreted in many different ways and the reporting matrix, as was shown earlier in this report, clearly shows that this has resulted in multiform reporting on these indicators. As a result, the information that is produced cannot be aggregated at the corporate AFT action plan level.

The AFT mix in the three countries is summarised (only for bilateral and regional projects and Finnfund and Finnpartnership) below (Figure 7):

**Table 7: Finnish AFT portfolio mix in the three country studies**

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<tr>
<td>Tanzania</td>
<td>Finnpartment-ship</td>
<td>PFP</td>
<td>TMEA</td>
<td>TANZICT (TANZIS)</td>
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<td></td>
<td></td>
<td>LIMAS</td>
<td>ITC (intra-regional trade)</td>
<td>InfoDev</td>
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<td>Seed Potato Project</td>
<td>Finnfund</td>
<td>Gesci (ALICT)</td>
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<td>EEP (SREA)</td>
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<td>Electricity supply in DES</td>
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<tr>
<td>Zambia</td>
<td>UN Green jobs programme</td>
<td>PLARD (II)</td>
<td>ITC (intra-regional trade)</td>
<td>SAIS</td>
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<td></td>
<td>FSDP (II)</td>
<td>S3P</td>
<td>(WCO) Regional Trade by Customs Modernisation</td>
<td>Gesci (ALICT)</td>
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<td></td>
<td>RSDRP (II)</td>
<td>ZNFU</td>
<td>Finnfund</td>
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<td></td>
<td>Finnpartment-ship</td>
<td>Production disease free planting materials</td>
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<td>EEP (SREA)</td>
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<td>Vietnam</td>
<td>MPDF</td>
<td>EEP (Mekong)</td>
<td>Finnfund</td>
<td>IPP (II)</td>
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<td></td>
<td>Finnpartment-ship</td>
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<td>Cold-water fish farming</td>
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AFT Action Plan objectives, goals and focus themes are sufficiently included in the portfolio in all three country studies without utilizing the Action Plan as a guidance document in practice. This indicates that there are other drivers that have led interventions more to private sector development and trade, which originate from two main sources:

- Developing Countries Government’s development and poverty reduction strategies that increasingly recognise the importance of the private sector as the engine of growth;
- International trends and developments focusing more on pooling resources and partnerships in international development relations.

The Country Strategies in all three countries have integrated these elements and they are now also integrated in the new FDP of 2016 (MFA 2016).
The AFT action plan has not integrated in its design and results framework the fact that different countries have very different development and trade contexts. The three country studies clearly show that depending on the country context, different interventions and support modalities are needed. Also the choice of sectors in countries could have been different if these were not guided by the Finnish added value sectors but by the country’s own production bases. Limitations could be observed during the country visits in the use of some of the instruments and facilities, most notably Finnfund and Finnpartnership in Vietnam and Zambia.

6.2 Effectiveness

Effectiveness of implementation of most of the AFT projects studied has generally been sufficient. Planned interventions took place and their purposes have been or are likely to be achieved as evidenced in the existing project reporting, reviews and evaluations. However, there are many cases in which significant delays have been incurred in producing the planned effects. The evaluators have seen projects, which at the time of this evaluation, faced implementation delays of up to two years. In some cases, these delays went hand in hand with low budget utilisation, which also indicates that there have been efficiency challenges in these projects (see section 6.3). Although it is possible that this remark also applies to other than AFT projects, the evaluators cannot confirm if this has been the case, because only AFT projects have been subject to more detailed investigation of review and evaluations and on-site visits and meetings with stakeholders.

At the level of the AFT Action Plan, it needs to be mentioned that the amount of data provided by different projects on AFT outcome indicators is very limited and that the data that is provided is not uniform. This does not allow an analysis of overall effectiveness of the AFT-AP. The country studies and interviews at the MFA indicate that the AFT-AP has not sufficiently functioned as a relevant RBM tool for programming and reporting by the Embassies or by country team desk officers at the MFA, nor has it been used as a tool to improve learning on effective AFT approaches or to increasing accountability. It has not functioned as a systematic framework and process to help with strategic planning and priority setting, and monitoring how interventions jointly contribute to higher-level development and AFT-related objectives and overall effectiveness of AFT interventions.

The focus of Finland on its value added sectors of Forestry, Energy, Environment and ICT has contributed to increased effectiveness in AFT projects in these sectors, because more available knowledge and expertise was available to implement them. In this respect, the current process of Finland phasing out of from one of its value added sectors (water) is observed with concern, as this was a sector in which Finland was widely respected for its knowledge and expertise. Additionally, because one of the strongest public-private sector forums in Finland, the Finnish Water Forum, was involved to effectively mobilise and pool public, private and civil society resources in this sector.
The Finnish approach on knowledge transfer and capacity building of local partners in the implementation of bilateral AFT projects has not been effective. Again, it is possible that this remark also applies to other development projects supported by Finland. Implementation and management of all major bilateral projects is done by Technical Assistance (TA) provided by mainly Finnish consulting companies. The evaluators have not seen sufficient orientation on the provision of TA towards transferring ownership and management of projects to national counterparts at the end of projects. In project documents and in reviews and evaluations of projects the evaluators have encountered limited attention to this aspect of capacity transfer.

Although Finnfund has globally been quite effective in building an investment portfolio that is generating rate of return on investment in relevant sectors and increasingly in low income developing countries, this been the case in Vietnam and Zambia only to a very limited extent. In these countries Finnfund only invests through national or regional equity funds. This limits possibilities for synergy and cooperation with national level AFT projects. In Tanzania, Finnfund has succeeded in building up some local investments (e.g. in forestry) which in one case were also linked to PFP project implementation.

Finnpartnership has suffered similar difficulties as Finnfund in Vietnam and in spite of a large number of BPS projects and many requests for business matching, it has not succeeded in developing many business partnerships in this country. Also in Zambia, it did not generate many lasting business relations. Only in Tanzania there have been more cases of successful business linkages and BPS projects.

Both Finnpartnership and Finnfund indicate that they had faced significant bottlenecks in engaging with the private sector in Vietnam, because of government control and wide spread corruption. However, when comparing with Denmark and the Netherlands, Finland has not achieved the same success as these two countries with their more diversified mix of private sector engagement and support facilities. Finnfund’s and Finnpartnership’s portfolios are geographically and sectorally very diverse and do not always constitute good linkages in the Finnish partner countries. Finnish companies that have used Finnpartnership support through BPS projects, indicate that this facility has supported them regularly in investigating business opportunities. However, the focus of Finnish companies is generally not the same as that of the Finnish Government.

With respect to establishing business linkages in all country studies many stakeholders have indicated that staffing of embassies and other support organisations on the ground has been very limited in providing continuity to trade missions and business meetings and conferences. These stakeholders also observed that business missions should be well targeted to produce good linking results, while most Finnish trade missions typically had a less effective multi-sectoral focus.

Multilateral projects with business development and trade organisations have been generally effective and seem to have been more closely aligned with the AFT Action Plan. These projects have performed better in reporting on AFT indicators, even without being guided directly by the AFT reporting framework.
This is because these organisations have been exposed to the AFT agenda for a significant period of time and are used to reporting against AFT indicators. The multilateral projects were generally implemented in an effective way.

6.3 Efficiency

Although the timeframes of the larger bilateral and multilateral AFT projects are relatively long (usually up to four years), implementation in practice shows that many projects cannot be completed in this period, and regularly budget-neutral extensions are given that can amount to two years. Several projects are also continued in a follow-up phase. The only project with a longer timeframe (7 years) that the evaluators have encountered was the TMEA project in East Africa. This project was operated by an enterprise entity based in Kenya that operated more or less as a trust fund. This mode of operations permitted a longer timeframe to the project (TMEA phase I) that is now also suggested for the second phase. Development partners can come in and out more flexibly while the project under this enterprise mode of operations can continue to operate even between different formal project-periods. This longer-term implementation model has proven to be useful to work on trade facilitation and economic development of transport corridors in East Africa that obviously need a long-term implementation perspective. These modalities will not only benefit efficiency in implementation but also contribute to sustainability.

With less available funding, fragmentation has decreased. While this decrease of fragmentation has contributed to more focus and effectiveness, the link to increased efficiency does not exist. The reduction of funds also influenced staffing in MFA and embassies and the available time to follow-up on projects has also decreased. This has particularly been a bottleneck when efforts have been needed to properly wind down a significant number of projects. In the near future, once the portfolios will be effectively downsized, more efficiency effects are to be expected.

The timeframe of smaller projects (particularly in the LCF) is usually one year, but projects are often renewed, sometimes even several times. This is not an efficient procedure, considering the administrative efforts that are required to open and close projects. More importantly, the short timeframes of projects are not helpful for implementers to realise a strategy to obtain sustainable results.

Because of implementation delays and low budget utilisation, evaluation reports and stakeholders indicate that sometimes the originally planned results were not fully achieved. Particularly projects in the agricultural sector were regularly not sufficiently focusing on developing value chains and access to markets. In some cases, the enabling environment was not supportive. The AFT project portfolio of Finland in Zambia is quite heavily focused on the agricultural sector, but government policies in this sector are strongly geared towards subsidizing national food-crops (maize) to achieve national food security. This policy has not been favourable for agricultural diversification and proper functioning of market mechanisms in this sector. Finland’s policy influence has been significant in promoting and also implementing alternative solutions to enhance diversification and choice of farmers. In Zambia, direct interventions and efforts to achieve policy influence have been mutually reinforcing.
Many stakeholders within MFA and Embassies as well as in the private sector have commented upon the existence of different departments and support instruments as silos in the implementation of development policy. This remark is probably also more widely applicable outside of the AFT portfolio, nonetheless in the AFT the coexistence of different projects in the same sectors without systematic exchange and cooperation has reduced effectiveness. Most notably this has been observed with multi-lateral projects that were implemented at the country or regional level (InfoDev and ITC).

The previous AFT evaluation noted the fragmentation of the AFT portfolio. This situation has changed considerably because in all country studies, budgets were downsized and the project portfolio sharply reduced. On the one hand this has improved effectiveness, because of the increased focus of country programmes and AFT project portfolios. On the other hand, effectiveness is also negatively affected because fewer funds are available to continue the projects and fewer human resources are available to manage, implement and monitor them.

The country visits showed that multilateral trade partners (ITC, World Bank group (InfoDev) and IFC (MPDF)) that implemented activities on the ground, in addition to not being well aligned with other activities, were also relatively expensive interventions. These projects were usually implemented by international experts and they had correspondingly high costs through fees, transportation and per diems. More cost-effective options of hiring local staff or involving companies in the region were not explored in these projects.

Finnfund has generally operated efficiently in identifying and processing investment projects and partners. To a large extent this efficiency is enabled through close alignment and cooperation in the EDFI. Finnfund usually does not operate alone in investments and this allows for pooling of resources in investment project identification and assessment. It also allows the spreading of risks. More importantly, this approach of Finnfund allows a multiplier effect on the capital that is invested in funds and companies, as they are pooled with resources of other parties.

Finnpartnership’s demand driven approach has led to a large, geographically and sectorally diverse portfolio of BPS projects and partners. This can also be observed in the business matching facility. The effects of this approach are that efficiency in allocation of knowledge and expertise in countries and sectors, in which only a limited numbers of partners exist, is very limited. Business matching in countries or sectors where there are only a few options for matching is not only inefficient but also ineffective because real matching can seldom be established. In BPS projects, although Finnish partners indicate that Finnpartnership’s support is generally efficient and effective, the effective disbursement rates in BPS projects are less than 40% per year over the past years. These low disbursements against a high number of commitments are an indicator of inefficiency and high administrative costs in the BPS support modality.
6.4 Impact

In section 4.4 it was already illustrated that impact of AFT projects is difficult to measure. The AFT reporting on basic indicators has been poor and no reliable and sensible aggregation of findings is possible at the country level, let alone at the global level.

A contextual analysis in the country studies shows that the collective AFT efforts of different development partners, including Finland, are correlated with increased performance of the countries in economic growth and poverty reduction. It is, however, not possible to attribute these developments to specific Finnish activities, which generally operate with relatively low volumes.

There are no direct and attributable effects and impact of AFT interventions on economic performance and trade in the country studies. To some extent impact on economic performance was included in the AFT results framework, in terms of job-creation. However, effects on trade were not included in the AFT results framework. In light of the new Finnish Development Policy that advocates for increased involvement of the Finnish private sector in developing countries, economic and trade development trends are of course relevant, as although not necessarily as an attributable impact of Finnish AFT, but rather as contextual and enabling factors. Collective efforts of different international development partners and economic actors in Tanzania and Zambia are not correlated with an increased integration of these countries into world markets. Further, there are no positive developments in trade relations between these countries and the world, including Finland and the two reference countries in this evaluation, Netherlands and Denmark. Presence and investments of Finnish companies in Zambia is very limited and trade volumes are close to zero. In Tanzania, the presence and investments of Finnish companies is more notable, although it is largely related to the development sector itself. Vietnam is a clearly different case. Vietnam has become much more integrated into the world markets and has become one of the most important trade partners in the developing world. Specific trade volumes between Finland and Vietnam have lagged behind volumes of other countries including the reference countries of Netherlands and Denmark. This could be an indicator that Finland has been less successful in transitioning from development relations to economic and trade relations with Vietnam. This conclusion was also confirmed by interviews with relevant key informants during the Vietnam country visit.

While it is not possible to conclude a great deal on the overall impact of collective AFT efforts, there is evidence of impact at the level of specific projects. There have been regular reviews and evaluations of the main bilateral projects in the country studies. These evaluations usually show positive impacts of projects in the forestry, ICT, energy and environment sectors. Evaluations of agricultural projects in Zambia and Tanzania were more critical, indicating that projects in this sector have had more challenges in achieving development and economic results. The choice of agriculture as a sector in AFT in Zambia could be considered risky, because the negative effects of subsidy policies have been known for a long time. In this regard, Finland has successfully used policy influence to promote diversification and supported implementation of interventions enhancing freedom of choice for farmers. Agricultural projects
in both Zambia and Tanzania have had a strong focus on production (e.g. seed potato, planting materials, plantation development) and much less on markets. The limited attention to value chain development and integration in supply chain has limited the economic impact of these projects.

There is a wide recognition and appreciation of the role of Finland in development cooperation in general and specifically in Finnish “value adding” sectors, such as water, forestry, ICT, energy and environment. Even while it is clear that Finland is a small player among the development partners, this specific focus has allowed Finland to achieve clear impact. This has been most notable in the water sector in Vietnam and to a lesser extent in Tanzania and also in the ICT and innovation and forestry sectors in both Vietnam and Tanzania. Finland’s role in policy dialogue, working groups and round tables of development partners not only at country level but also among multilateral partners was well noted. Many informants confirmed that Finland’s policy value was much higher than its budgetary commitments would indicate.

The development impact of Finnfund has been considerable. At the end of 2013, according to the latest FF Annual Report, companies financed by Finnfund directly employed some 22,800 people. Various taxes and charges paid by companies financed directly and indirectly by Finnfund totalled about EUR 434 million in 2013. Most of these were paid by investees of the private equity funds in which Finnfund has invested in Africa, which indicates that this impact is obtained in the lower income developing countries. Another important impact, relevant for AFT and reported by Finnfund, is SME development through the provision of microloans by microfinance institutions and banks financed at least partly by Finnfund. Some of the Finnfund investment investments have produced negative development impacts for local communities that have been adversely affected by investment projects, most notably in the construction of dams in Laos and Honduras.

The impact of Finnpartnership that could be observed at the country level was very limited, with the exception of a larger initiative in the ICT sector that resulted from a BPS project of a Finnish company. At the same time Finnish companies that have received support of Finnpartnership indicated that BPS support has led to changes in their export and investments in developing countries and in imports from these countries.

### 6.5 Sustainability

The sustainability of the Finnish AFT interventions should be looked at differently according to the specific country context, in which the interventions are rolled out. Vietnam and Zambia have become lower middle-income countries and the cooperation relation between Finland and these two countries is moving from development aid to economic relations. For a transitioning process to be successful, as shown by the experiences of the Netherlands and Denmark, a specific strategy and dedicated financial and human resources are needed. Perspectives for developing economic relations are better in Vietnam than in Zambia, because the Zambian external trade is almost entirely based on a single commodity, copper. While there might be some Finnish business interests
in the mining sector, from a development and SME perspective this sector is not the most relevant. If Finland wants the transition from development to economic relations to succeed, a pro-active approach is needed where specific sectoral niches are identified for cooperation. These are most likely to be in the agricultural sector and forestry.

The different degrees of success in transition strategies of Finland vis-à-vis Denmark and the Netherlands in Vietnam illustrate the need to invest more in local capacity to facilitate and support business initiatives, linkages and investments and a more coherent approach to deploy the full AFT set of instruments. It will also require strengthening of the Finnish presence in Ho Chi Minh City where most of the international trading activities are located.

Tanzania requires another strategy, because it will in the near future still remain in the low-income country category and development cooperation will dominate the relationship. The strategy should also look more explicitly at the already existing linkages between Finnish private sector engagement and development sector actors in Tanzania. The downsizing of staff at Finnish Embassies poses a risk to the proper design, planning and implementation of the transition in all three countries.

Several of the agricultural support projects in the AFT portfolio have not sufficiently focused on developing value chains in specific sectors and to establishing linkages between local SMEs and international supply chains. There has not been a systematic attempt to identify supply chain linkages that would include Finnish enterprises. Finnpartnership has been exploring business matching possibilities and supporting Finnish companies to explore contacts with buyers or suppliers, but this was done through a demand driven approach and without linking up with productive projects in partner countries. The experience of Finnpartnership’s BPS projects also shows that many of the companies that have sent proposals for BPS projects focused on the development sector as a market in the partner countries and less on private sector supply chains. The possible complementarity of the Finnpartnership instrument to identify and support possibilities for supply chain linkages has not yet been sufficiently explored. This leaves production-oriented projects at the end of implementation periods often with weak sustainability perspectives.

A challenge for improving sustainability of AFT projects is to systematise learning from past experiences and building on lessons learned. This requires effective systems for monitoring and evaluation. This need is recognized in the new FDP, but it will require significant resources and as the current experience with reporting on the AFT results framework shows, monitoring and knowledge management is currently far from satisfactory.

### 6.6 Complementarity, Coordination and Coherence

The country visits and interviews with international AFT project partners in the country studies and in Geneva have shown that Finland is recognised as a valuable partner in development. Finland participates actively in policy dialogue, donor working-groups and in joint project investments.
The Finnish strategy to focus on sectors where it can add specific value has already been applied over several years and remains also in the new FDP. This focus on specific sectors provides an opportunity to develop more specific partnerships with other organisations and with the private sector. This can increase complementarity of actions of MFA and other actors. Historic presence of Finland in the water sector and the existence of an active public private partnership in the water sector, the Finnish Water Forum, have shown that such cooperation can be very successful. In Vietnam, the activities of the MFA and members of the Finnish Water Forum in the provision of clean drinking water in Hanoi and Haiphong (“Finnish Water”) are still remembered as very valuable. Finland is currently in the process of phasing out from the water-sector in Vietnam and Tanzania, which is likely to lead to losing visibility in an important sector where Finland can add value and where private sector involvement is already well developed.

Coherence and synergy within Finnish Aid in general and within the AFT projects in particular are major challenges. This is due to the fact that aid channels and modalities are managed by at least four different departments in the MFA (regional desk, external economic relations, development finance institutions, CSOs) and by the Embassies. In addition to this, the private sector instruments, Finnfund and Finnpartnership operate as private sector demand driven facilities and are managed and implemented by Finnfund. The different aid channels and modalities operate isolation from each other and are in practice not well integrated. The structural and functional set-up of the MFA and the reality of decentralised operations on the ground in partner countries are difficult to change, but new functional mechanisms for coordination and steering can be developed.

Multilateral projects and partner relations are least articulated in the portfolio and in many cases these support relations are not related to specific regions or countries, but follow a global agenda. The management of these partner relations is done by the External Economic Relations department. The degree of steering is more limited than in most other AFT aid modalities, because multilateral relations are steered through policy dialogue and yearly influencing plans. This means that multilateral projects are more difficult to align with the rest of the portfolio. Simultaneously trade specific multilateral partners are generally aligned since they adhere to the international AFT agenda, which also guides the Finnish AFT agenda. In some cases, project-support to multilateral partners is earmarked to specific countries or regions. It is particularly in those cases where limited coordination with country-level of regional AFT projects limits coherence and synergy in the AFT portfolio.

The management and steering of Finnfund by the MFA can be compared to the situation with the multilateral institutions. There is no formal steering of the AFT AP and Finnfund receives yearly guidance notes by the Development Financing Institutions Unit, which has not included AFT in these guidance notes. This is not beneficial for information exchange and coordination and synergy with other departments and AFT instruments.
6.7 Crosscutting objectives and human-rights based approach

The strong policy support in the 2012 DPP to promote the Human Rights Based Approach (HRBA) and Crosscutting Objectives (CCOs) has also been included in the AFT Action Plan. In line with the 2012 DPP the AFT-AP pays significant emphasis to HRBA and CCOs.

In Finland’s 2012 Development Policy Programme (DPP) strong emphasis on HRBA was introduced. Gender equity, reduction of inequality and climate change continued as crosscutting objectives and were defined as compulsory for the first time. This also had an effect on the AFT. According to the 2012 DPP, the AFT implementation is to improve preconditions for entrepreneurship in developing countries as well as promote women’s and young people’s full participation in productive activities. In line with the human rights based approach, AFT was specifically to promote economic, social and cultural rights, and when feasible, also civil and political rights and freedoms. It is considered as a natural goal for AFT as work, livelihood and women’s economic empowerment are results of entrepreneurship, employment and vocational skills development (MFA 2012a). In implementation of AFT projects, awareness of local populations of its human rights and fundamental labour rights and ability to act in realization of these rights were to be promoted. In addition, capacity of authorities to understand obligations of companies to respect human rights and to increase their capacity to monitor compliance of the private sector with these obligations is expected (MFA 2012a). AFT was to particularly benefit people whose rights and opportunities are realized the least, and is also connected to consumer protection, product safety, fair trade and corporate social responsibility (MFA 2012a).

The goals of AFT include all CCOs visibly. Reduction of inequality is at the core of the Theory of Change of the AFT-AP. AFT interventions address economic development and improvement of trade conditions for developing countries. However, effects on reduction of inequality are quite different depending on the level of analysis that is chosen. AFT support to developing countries is enabling these countries to achieve better integration into the world’s economy. The choice for providing such support to developing countries and particularly lower-income developing countries is an attempt to reduce unequal integration with the world economy. The contextual analysis in this evaluation (see section 4.4) shows that it is not possible to attribute reduction of inequality to specific AFT interventions. The lower-income developing countries (e.g. Tanzania) have not been able to acquire significant changes in terms of insertion in global economic markets, while middle-income countries (e.g. Vietnam) appear perform better.

Looking at reduction of inequality in terms of population groups and gender, limited information is available. AFT reporting or other evaluations do not enable a comprehensive assessment of impact on reduction of inequality at the aggregate level. There is ample theoretic evidence that interventions that focus on development of economic infrastructure, SME and private sector development do not target the poorest of the poor. To achieve success in economic development projects and SME development it is imperative to work with tar-
target-groups that have the capacity to deal with finance. Effects of such projects on poor target groups trickle down through the private sector enterprises in the form of employment creation. Employment creation is part of the overall objective of the AFT-AP and it is monitored through the indicator of number of jobs created for men and women. This evaluation has shown that job creation until present is only monitored to a limited extent.

Trickle down effects of economic development do not happen automatically. Recent studies show that “Inequalities at national level are increasing in developed and developing countries, despite some exceptions in Latin America” (Vieira, 2012, p.1). In the country studies the evaluators have seen evidence of the same. In Zambia where GDP has increased an over the past years as a result of favourable copper prices inequality amongst the population has increased. Unfortunately, no comparative data on the Gini-Index development are available for countries studied.

Monitoring and reporting information on AFT interventions and projects usually provide limited or no information on reduction of inequality effects, except in cases where projects target specific target groups, such as women entrepreneurs and ethnic minorities in Vietnam’s in LCF projects. Because these projects were targeted to specific groups, their inclusion in economic development and acquisition of income has improved.

Women’s entrepreneurship is defined as one of the AFT AP focus themes, and mentioned as a vehicle for making a living, economic empowerment and equality together with developing agricultural and forestry value chains. The green economy and climate sustainability are an integral part of the AFT Action Plan’s priorities. AFT is to support transition to a green economy and the sustainable use of natural resources in agricultural and rural development, forestry and energy sectors. The benefits of trade are to be brought within reach of people without accelerating climate change. At the same time the production of new, climate-friendly approaches, low carbon development and ICT are to be promoted (MFA 2012a).

Inclusion of Human Rights in the AFT action plan is less specific than cross-cutting objectives. It is not mentioned in the goals and focus areas. Human rights are, however, relevant for the AFT action plan. AFT will not generate its desired development impact if no attention is given to quality of work. ILO’s decent work concept and the UN guiding principles for Business and Human rights (the Ruggie “respect, protect and remedy” framework) are part of the AFT approach only to a limited extent. Corporate Social Responsibility (CSR) is mentioned in the AFT action plan and also in the new FDP. Yet CSR is mainly driven by voluntary buy-in of the private sector to comply with CSR standards. This could be considered a weakness of the current Theory of Change in the AFT Action Plan.

Country studies show that in the Country Strategy monitoring framework, HRBA and CCOs have not been addressed explicitly e.g. with specific targets. It is indicated that they will be mainstreamed in all interventions. However, as specific targets have not been set, HRBA and CCOs have not been systematically included in the country programming and are not measured and systematically reported on (apart from number of women/men when data is available).
At the project implementation level there is evidence on mainstreaming cross-cutting objectives, particularly promotion of gender equality. Inclusion of gender is structural at the project identification, design and planning stage of most AFT projects. Gender disaggregated quantitative information is produced in monitoring and reporting. However, while gender-disaggregated data collection is common, it is rarely analysed and used for management purposes and future development. Reflection and learning from effective gender-based approaches in the AFT portfolio as a whole is limited.

Climate change and environment have gained less emphasis. Inclusion of environment is generally included in the agricultural sector, in forestry and energy and environment. This is to a large extent guaranteed by the specific expertise that Finland has in the area of environment and clean energy.

Portfolio analysis and country studies indicate that specific LCF projects focus on supporting economic rights of minorities and vulnerable target groups, female entrepreneur associations, trade associations and CSOs conducting research e.g. on laws and policies related to private sector development. Support has also been allocated for increasing awareness of local populations on their human rights and fundamental labour rights as well as their ability to act in the realisation of these rights. It has focused less, if at all, on ensuring that authorities understand the obligations of companies to respect human rights.

In the light of the overall objective of the AFT Action Plan to create jobs, the human rights perspective is relevant and can be translated to the Decent Work principle, the UN framework on business and human rights and also into (more voluntary) Corporate Social Responsibility principles. However, this has been done to a very limited extent in the AFT portfolio with some exceptions such as the UN Green Jobs programme in Zambia.

Overall, there has been significant improvement on how CCOs and HRBA have been taken into consideration in the AFT Action Plan II compared to evaluation results of the AP I. However, limited guidance on how to operationalize CCOs and HRBA in the programming at the country level, in monitoring and reporting and in the work of the Quality Assurance Group has remained largely the same in the second phase.

6.8 Result Based Management

The 2012 DPP set the objective of improving results-based management in Finland’s development cooperation, including requiring results-oriented country programming (MFA, 2012). The adoption of the AFT Action Plan introduced a more result-oriented tool to Finnish development co-operation. The AFT Action Plan is a pilot in a larger RBM work within the MFA and considered as “a good practice attempt for adopting a programmatic approach based on RBM” in a recent policy level evaluation on Finland’s Development Policy Programmes from a Results-Based Management Point of View 2003-2013 (Palenberg, M. et.al 2015).

There has not been a systematic organizational arrangement on how the embassies and the MFA cooperate with each other on issues related to AFT. The involvement of embassies in AFT has remained limited to annual upwards
reporting to the MFA. Lack of accountability mechanisms together with the fact of a lack of systematic guidance and support, nor efforts to discuss with embassies on how to better promote and operationalize AFT at the country level have hindered implementation. This might be linked to the underdeveloped RBM approach at the MFA corporate level where there are no concrete corporate level objectives to which the AFT Action Plan could be anchored. Inadequate guidelines that are not normative, lack accountability structures and have indicators that are not in synergy with the CS in long-term partner countries have hindered operationalizing the AFT Action Plan.

An AFT Steering Group was set up by the Minister of Development Cooperation in 2012, with a mandate to “strengthen guidance and monitor implementation, results, effectiveness and give guidance for preparation of interventions” (MFA 2012c). Interviews with some of the Steering Group members and the review of the minutes indicate that the Steering Group exists mainly for experience sharing purposes. It monitors and updates the list of projects and key actions, but it does not have decision-making power. No real accountability structure was created for implementation.

The AFT Action Plan and corresponding guidelines were sent to the embassies but as they are only indicative, not normative, and not followed up with guidance and support by the MFA, the AFT Action Plan has been marginalised in the country level programming. This does not mean that PSD and trade related interventions do not occur, but that this cannot be attributed to the existence of the AFT Action Plan. AFT has been more of an umbrella (a retro-active construct) than a planning and steering tool. Ownership of the AFT Action Plan is clearly with the MFA, much less at the embassy level and non-existent at the recipient country level in all country studies.

Results-reporting is seriously hindered by the fragmented management of different instruments, inadequate data and results information provided by the different aid instruments and challenges, such as regional programmes, private sector instruments, Team Finland, CSOs and ICI. The AFT reporting by embassies is carried out manually, based on a matrix, which includes the Action Plan indicators. In most cases there are no data available on required AFT indicators (apart from # of jobs created), which reduces relevance and validity of reporting from the Embassy to the MFA and retro-alimentary feedback of MFA back to the Embassy. For example, information provided in the 2013 and 2014 AFT reporting matrices is very limited, even regarding the # of jobs created. In addition, even though AFT interventions are defined according to OECD-labels, e.g. LCF or NGO’s projects do not always show as AFT. LCF projects are not part of AFT results monitoring as the number of projects becomes far too big to manage for results reporting The country studies also revealed, that there are relevant AFT - projects in the portfolio which are not coded as AFT projects. Knowledge of the desk officer who is responsible for assessing the AFT relevance of the intervention, affects coding.

In general, M&E and reporting on AFT-coded projects do not measure outcomes and impact but mainly remain at the level of outputs. Development and use of appropriate indicators and monitoring of performance is still a challenge. Aggregation of results is not feasible but project level results and impacts can
be measured and evidenced. Most AFT indicators are different from indicators included in the CS in the country studies (apart from # of jobs created), which reduces relevance and even validity of reporting to the MFA and retro-alimentary feedback of MFA back to the embassies. The timeframe to report on results and outcomes of interventions that have started in the current AFT AP period was limited and many of the AFT interventions looked at in this evaluation have started only recently and thereby have not shown results, yet. In addition, the challenge of the limited data available in the overall AFT annual reporting does not enable assessing results beyond the intervention level of specific projects.

The AFT longer-term and indirect impacts referred to in the DPP as “inclusive green economy that promotes employment and sustainable management of natural resources” and “private sector that creates decent employment and opportunities for all” are broad and vaguely defined, making it difficult to assess to what extent Finland’s AFT support (mostly short-term) has contributed to these longer-term impacts. The annual AFT reporting provides monitoring information on its overall goal in term of number of jobs created, but it only does so in a limited number of cases. The link with broader development impacts through this indicator is rather weak.

AFT-specific reporting has not enhanced dialogue between MFA and embassies in country studies, let alone recipient countries. As part of the CS reporting, AFT-coded interventions are reported on. According to interviews in country studies and at the MFA, CS annual reporting has proven an excellent opportunity for MFA management to have dialogue with embassies and provide feedback, but this cannot be attributed to the AFT reporting process and it does not serve global AFT-reporting purposes. Interviews and the document review also indicate that AFT-specific reporting has not improved the quality of reporting on trade or PSD interventions or brought about a better understanding of what is being achieved in these interventions. AFT monitoring is an important pilot but data-collection is challenging and data collected is not used for management, but rather for external reporting.

Reporting on AFT indicators has not been part of general reporting of the embassies but an additional reporting responsibility, which has contributed initially to low response rates. An instruction was sent to different units on 5.6.2014 (MFA 2014a) to report on results based on the Action Plan indicators. During the evaluation period, the reporting on AFT results did improved annually. For example, in 2013, 57 interventions reported results compared to a previous 48. Out of 57, 34 interventions were able to report according to AFT-indicators either directly or applied. 23 did not report according to indicators but most reported at least some results. However, in spite of responsiveness of project managers and holders to report on AFT indicators, in practice most of the reporting information is partial and oftentimes ambiguous. Interviews and review of SG minutes (MFA 2014b) indicate that in the multilateral interventions it has been more challenging to get the AFT indicators in and monitored than in country specific interventions. On the other hand, the multilateral projects and Finnfund and Finnpartnership produced more quantitative information on the AFT results-framework indicators than other projects.
AFT indicators have not been included as part of the quality assurance process and the work of the Quality Assurance Board (QAB), and thereby not systematically included in the project design. The key word search analysis shows that discussions on the AFT-related issues have been very limited in the QAB.

Country Strategies (CSs) are a key management tool in the RBM chain in the long-term partner countries, based on which the performance of the embassies is assessed. Review of the CSs of the country studies and interviews reveal that there are limited, if any, synergies between the CS and AFT processes. The AFT Action Plan and related RBM processes (monitoring, accountability, learning) have not brought additional value to the CS process and vice versa.

The CS currently only includes bi-lateral projects, where AFT is a broader action plan incorporating broader set of instruments than merely bi-lateral cooperation. The CS in its current form is not fully relevant for facilitating transitioning from traditional ODA to business partnerships and trade promotion, and it does not enable better integration of the AFT-agenda in specific country programming. In the transitioning process, in the shift from ODA to new business partnerships and promotion of trade, the role of embassies is not clear nor are the embassies adequately resourced. In this regard, current initiatives of the Embassy in Zambia to shift more towards being a “knowledge-hub” on transitioning and of the Embassy in Vietnam and the Regional Department at MFA to prepare a comprehensive transition plan for promoting business partnerships and trade opportunities are very relevant to create and strengthen private sector development and trade linkages. Country strategies and other country-level development and support plans of Finland need to also reflect AFT objectives, goals and indicators, as well as influencing plans in the case of multi-lateral assistance.

AFT-coded projects are managed in different departments without effective coordination. A challenge, seen from the perspective of embassies, is that many of these instruments are not managed by them and by the regional department at the MFA and thus the possibilities for embassies to influence design of instruments and to work on more complementarity of different interventions are limited to occasional consultation. Embassies have little control over these instruments, e.g. regional programmes even when they operate in the country and the overall budget of these instruments now exceeds for the first time the amount of available bi-lateral funding.
7 CONCLUSIONS

7.1 Main Conclusions

The Terms of Reference of the Finnish Aid for Trade 2012-2015 evaluation contained three main evaluation questions. This section provides short responses to these main evaluation questions. The next section (7.2) presents specific conclusions of this evaluation research on different evaluation criteria and Results Based Management principles.

The evaluation study covered global policy aspects of AFT, but on implementation of AFT interventions research was limited to only three Finnish long-term partner countries. These three country studies are a quite representative mix of different long-term partner countries in different phases of economic development. The evaluation has not included private sector and trade development operations in conflict or post-conflict countries where realities are quite different. Furthermore, no research was done on trade development in upper-income developing countries, although in some of these countries (such as China, India, Brazil and Namibia) Finnish Embassies are active in building economic and trade relations and also the PSD instruments are deployed. Although the latter interventions would not have been labelled as AFT, they are relevant in the light of the new Finnish Development Policy.

The conclusions apply particularly to the AFT and PSD instruments in Finland’s long-term partner countries. The policy-level conclusions are more widely applicable to all countries where Finland has a development cooperation presence and where direct or indirect AFT support is given through national, regional or international partners. Conclusions related to the PSD instruments, based on wider research at global level and in Finland, are also likely to be more widely applicable to all countries where these instruments are currently being applied.

Has AFT succeeded in realizing Finland’s DPP 2012 and more specifically its priority areas: Inclusive Green Economy that Promotes Employment and, Sustainable Management of Natural Resources and Environmental Protection?

The Finnish AFT portfolio in the country studies is found to be relevant in relation to green economy, employment creation and use and management of natural resources (energy and environment). AFT projects in the past years have produced results and contributed to impact in specific sectors, in which Finland has competitive advantages and can bring added value. These sectors are water, energy, environment, ICT and innovation, forestry and fisheries. Many AFT projects have achieved increased involvement of private sector partners in a developing country, but the involvement of Finnish companies in private sector initiatives in the partner countries is still very modest. The impact of Finnish AFT at the aggregate level is not possible to measure, but at the level of specific projects there is ample proof that good results and impact were achieved.
Has Action Plan 2012-2015 succeeded in guiding implementation of Finnish AFT and how effective has implementation been?

The AFT Action Plan has not guided implementation of Finnish AFT and programming in partner countries, and has primarily remained an internal MFA instrument. Embassies and external partners only know the Finnish AFT Action Plan to a limited extent. However, in practice many AFT interventions in the country studies were well in line with the objective, goals and focus themes mentioned in the action plan even when not guided by the AFT Action Plan itself. This indicates that other sources and mechanisms have guided programming towards AFT and a private sector focus, especially the Development Programme Policy of 2012 and now the new Finnish Development Policy of 2016, with an even more explicit focus on these themes. As a result, a separate thematic action plan on Aid for Trade is largely obsolete as its elements are already integrated in other key strategies and guidance documents.

The effectiveness of implementation of AFT projects has not been optimal, mainly due to limited coordination and weak linkages between different instruments and support modalities and limited synergy between different departments of the MFA, embassies and external partners. Particularly multilateral projects and the private sector development instruments are not sufficiently in line and linked with other AFT development interventions.

Although not mentioned as an objective in the AFT Action Plan or the FDP of 2016, the Finnish Government wishes to see a stronger and more active involvement of Finnish companies in developing countries. This ambition has not yet been fulfilled. It will require significant efforts to give a further boost to build economic and trade relations particularly in countries where Finland is phasing out its traditional development aid operations.

How do private sector instruments Finnfund and Finnpartnership contribute to overall Finnish AFT?

Finnfund’s reports show that it is achieving significant results through its investment activities in terms of job-creation. Additionally, Finnfund has contributed to private sector development by providing finance in developing countries, including in low-income developing countries, in which financing is generally not available. The positive rate of return on Finnfund’s investments is an indicator that this institution has generally been successful in its investment decisions and therefore has contributed to the Finnish AFT. Finnfund’s investment portfolio is relevant for some of the focus sectors in the Finnish development cooperation, particularly forestry, energy and environment. Exchange of information between Finnfund and the MFA and embassies on investment possibilities and linkages of investments with AFT projects and project partners is too limited to effectively create synergy between AFT related development interventions and economic investment support.

Finnpartnership’s activities as a demand driven facility for project subsidies and business matches are often not well linked with other Finnish development efforts and projects. Finnpartnership has succeeded in supporting Finnish SMEs to explore possibilities for trade and investments in developing countries, but the facility has no mandate to further support SMEs in realising
effective start-ups and investments. As a result, impact of Finnpartnership in establishing investment and trade in developing countries by Finnish companies has remained limited as has its contribution to Finnish AFT.

### 7.2 Specific conclusions

1. The AFT Action Plan has not sufficiently served as a guiding instrument to MFA and its external partners on the coordination and implementation of AFT priorities. The AFT-AP is not well known among staff members in MFA departments and at embassy level and it is virtually unknown among external partners. But in spite of the limited visibility of the AFT-AP, its objectives, goals and focus areas are generally integrated to a large extent in other existing (Development Policy Programme (DPP)) and new policy documents (Finnish Development Policy (FDP)) and Country Strategies (CSs). Mainstreaming AFT in programming, monitoring or reporting has not been successful and the amount of information about results obtained in AFT projects is very limited. The existing and new development policy documents of the Finnish Government are not yet sufficiently operationalized to ensure that specific AFT approaches, strategies and instruments can be tailored to specific country contexts, ranging from long-term partner countries, countries in transition and eventually trade partner countries.

2. The AFT-AP was the first thematic plan in Finland’s development policy that followed Results Based Management (RBM) principles and it was highly valued for this by a previous evaluation. However, in practice it has not been used as such. Reporting on the AFT-AP has been incomplete and the set of indicators in practice proved to be too complex to measure, because most indicators were interpreted in different ways by actors in different contexts. The varying interpretations of indicators in rendering monitoring information made it impossible to aggregate monitoring data. As a result, the AFT Action Plan has mainly remained limited to AFT-labelling for OECD and output monitoring. It has served the purposes of exchange of information, reflection and learning on effective AFT approaches and instruments to much lesser extent.

3. Awareness of the importance of PSD and trade development in Finnish development programming has clearly improved over the past AFT-AP period, largely as a result of emphasis on PSD as a policy priority in the Finnish DPP of 2012 and the FDP of 2016. PSD and AFT are now clearly a part of country level programming and current CS updates in 2016. Awareness and practical understanding on how in practise to promote AFT objectives, trade relations and business partnerships is still limited and not reflected in performance assessments and staff profiles of the Embassies. Insufficient capacity (time, resources) and missing specific AFT and PSD competencies among Embassy staff and unclear task description in in AFT and PSD promotion have affected effective promotion and implementation of AFT and PSD objectives. The capacities of Embassies need to be further developed, as they have a key role in supporting the shift from traditional ODA support towards new modes of
cooperation in long-term partner countries, in strengthening economic cooperation and trade relations in transition countries and in developing more pro-active and better visible actions within Team Finland. In addition to staff capacity development on AFT also systems and formats for AFT planning and reporting need to be better explained and rolled out because the current knowledge on reporting requirements at the level of embassies is still limited.

4. MFA, until present, has consulted frequently with the Finnish Private Sector and CSOs on its development policies, but it has not yet considered working with the Private Sector as a direct partner in development cooperation, with the exception of a small participation of the Finnish Private Sector as a minority shareholder in Finnfund. Projects work with private sector partners mainly at the recipient country level and not (yet sufficiently) in international supply and value chains. The CSO and Private Sector perspectives on the new FDP of 2016 are disconnected and at this moment even somewhat in conflict. While public-private partnerships (PPPs) and Multi-stakeholder approaches and partnerships are globally more and more mainstreamed in development interventions, this is not yet sufficiently recognised in the AFT Action Plan and in Finnish Development Policy documents.

5. There is a “missing middle” in support to SME’s in both the Finnish partner countries and in Finland. While Finnfund and Finnvera can provide support to larger investment opportunities, there is no such support facility available for smaller initiatives targeting Finnish SMEs. Experiences in Denmark and the Netherlands have shown that such support can be effective in developing international business relations.

6. The reduction of Finnish Aid to partner countries was done by terminating projects and phasing out certain sectors, leaving a rather limited mix and portfolio of Aid and PSD instruments to allow for phasing in of new initiatives and partnerships to develop and strengthen economic and trade relations. Additionally, the reduction of staff at the embassies has further limited the facilitation of building new relations, which is particularly relevant in transition countries. Compared to the reference countries, Denmark and the Netherlands, Finland has not done as well in transitioning from Aid to Trade.

7. The case study confirms the policy relevance of Finnfund for AFT and PSD and trade development, but remains limited due to the limited information that could be obtained on specific investments and investee companies. The impact of Finnfund’s investments remains largely outside the scope of this evaluation. The case study on Finnpartnership showed that in spite of having supported a considerable number of Finnish SMEs in taking first steps in exploring partnerships and investments in developing countries, Finnpartnership has had limited effects and impact on actual investments and trade development between private sector partners in developing countries and in Finland.
The case studies on Finnfund and Finnpartnership show that there is a dilemma and trade-off between central steering of PSD instruments or letting them be demand driven. Currently Finnpartnership and Finnfund are demand-driven and in the case of Finnfund have limited AFT-AP linkages or steering. Lack of central steering and information exchange between MFA departments, embassies and Finnfund and Finnpartnership has limited the complementarity of the PSD instruments with other aid interventions in Finnish partner countries.

8. Finland’s AFT projects have been too production orientated to obtain powerful and promising market perspectives and linkages. Different projects have addressed different levels and actors in supply and value chains. The effects have been noticeable at certain levels in the supply chain but not the supply chain as a whole, particularly not in supply chains in which Finnish companies are involved as lead buyers or investors. Agricultural projects reviewed in the country studies have had limited impact in terms of developing regional and international market access, although sometimes at local level some effects could be seen.

9. The organisational set-up of MFA is not supportive of central coordination and guidance of thematic action plans such as the AFT-AP. Coordination, complementarity and synergy of AFT interventions have remained limited, because different projects were implemented through different modalities that usually are also managed and implemented by different departments in MFA and by Embassies. The AFT steering committee has not been able to take an effective leadership role in coordinating Finnish AFT during the second action plan period. AFT specific issues have received limited attention in the Development Policy Steering Group.

10. In the current context of a reduction of Finnish development aid, the historically important support to multilateral and international organisations is also reduced, but still remains considerable. Much of the support provided to multilateral and international organisations is focusing on international policy framework development and research activities as well as international systems development. Such projects are complementary to other AFT projects supported by Finland that can benefit from a better trade environment and enabling systems and regulations. On the other hand, some of the multilateral and international AFT projects implemented on the ground in the partner countries have not always been well linked with other development interventions supported by Finland. Results of these projects were not used in other interventions supported by Finland at the partner country level and sometimes these results were not even fully known.
8 RECOMMENDATIONS

1. The evaluation recommends for AFT to be integrated into existing and newly developed development policy planning and monitoring mechanisms and for integration into already existing RBM practices to be improved. No new AFT Action Plan beyond 2015 is needed, because the new Finnish Development Policy of 2016 sufficiently includes the AFT overall objective, goals and focus areas under the pillars 2 and 4. More specific strategies and approaches for private sector development and enabling trade need to be developed in the further operationalization of the FDP in specific strategies, actions and a corresponding results frameworks. Different pathways for development and specific theories of change are required for Finnish core partner countries, transition countries and economic partner countries. In core partner countries, AFT interventions can be fully integrated in country strategies that are derived from the FDP. In transition countries these private sector and trade development interventions could be guided by Team Finland strategies and plans, combining ODA (and AFT) support modalities and private sector development instruments. And finally in developing countries that have transitioned to economic partners, private sector development instruments and economic diplomacy efforts from Finnish Embassy can support trade and investment relations between private sector partners.

2. MFA needs to continue ongoing efforts to further develop a simple and manageable set of AFT-indicators. AFT indicators will have to balance the need for aggregation of main results and the need for fine-tuning to different country contexts in order to produce relevant insights on trade and private sector development processes. The evaluation recommends that the MFA develops a hybrid system of central and decentralised indicators:

- Reduce the number of indicators in the current AFT Results Framework to only one or very few general indicators that will be used for aggregation at central level. Number of jobs created for men and women should remain as an indicator, but instructions and guidance on how to report on this indicator will have to be much clearer and precise to allow for uniform reporting in all AFT interventions in different country contexts;

- More specific sets of AFT indicators should be developed that are tailored to specific country or sectoral context and multilateral cooperation. Monitoring information will only be aggregated to that specific level. This will produce more relevant and deeper understanding of developments and allow more direct and relevant steering of AFT or private sector and trade development interventions under the pillars of the FDP.
3. **Improved planning and reporting on AFT interventions will also require developing systems and capacity of MFA staff and Embassy personnel to report on AFT specific results frameworks and indicators.** The evaluation recommends for the MFA to develop practical instructions and checklists on how to integrate AFT into the project cycle, results frameworks, CSs, influencing plans and regular embassy plans. These instructions and checklists should be disseminated by intensifying practical training and instruction sessions. Training should also cover the benefits of AFT and private sector development in transition towards economic cooperation and strengthening business relationships between Finland and developing countries. Systems development in MFA is needed to overcome current shortcomings in the provision of data to the OECD-CRS reporting system on AFT. Firstly, possibility to enter more specific codes and corresponding ODA value is required to obtain a more precise and reliable picture of how and where Finnish AFT is invested. Secondly, the manual reporting matrixes on AFT indicators need to be automated in order to secure more precise information that can be aggregated at the sector, national and global level.

4. **The evaluation recommends for the MFA to strengthen private sector involvement and multi-stakeholder participation in AFT planning and implementation.** The Private Sector, both in Finland as well as in developing countries should be involved more directly as a partner: a) in the implementation of AFT in ODA recipient core partner countries and b) in the use of private sector instruments in transition or economic partner countries in the developing world. In Finland, MFA should consider to step up its efforts in dialogue with the private sector from consultation to establishing direct partnerships (as is currently only the case to a minor extent in Finnfund). At the same time, more attention should be given by MFA to multi-stakeholder cooperation of private sector, civil society and government institutions to provide more holistic approaches and solutions to development challenges. This requires bringing different ODA modalities and private sector instruments closer together to establish linkages and partnerships in projects on the ground in developing countries and where possible and relevant such partnerships could be mirrored in Finland. Initiatives that include actions for public-private partnerships and multi-stakeholder cooperation could receive a bonus or extra technical or diplomatic support by the MFA.

5. **The evaluation recommends for the MFA to complement the current portfolio of private sector development instruments with new instruments that focus on SMEs and multi-stakeholder participation to enhance innovation.** MFA should develop facilities that instead of subsidies focus on loans and guarantees to SMEs. The need for expansion of the current portfolio of PSD instruments, can particularly be seen in the “missing middle” of private sector development: after the initial identification and start-up phase (and in case of innovation projects, after proof is provided that innovations are feasible and marketable), SME’s need access to support for the investment and implementation stages of their initiatives. When analysis and selection of projects and companies is done
thoroughly and is focused on bankable business initiatives, finance is required. This change in approach would also avoid the rather complicated EU legislative requirements on subsidising private sector entities. New finance facilities will require guarantees and compensatory support from MFA to implementing institutions to cover the extra risks of these SME operations.

6. The evaluation recommends for the MFA to develop specific strategies and to allocate resources to Embassies in countries in transition to enable the shift from ODA to the use of new modalities of cooperation focusing on economic cooperation and business partnerships. This will require country specific strategies for transition countries that include allocation of budget and staff to facilitate the establishment of new economic relations, since otherwise phasing out of aid relations might result in a total exit from these countries. The development of new economic and trade relations need to build on a sufficiently broad (but also focused) mix of sectors that are most relevant for building economic and trade relations with the Finnish partner countries and regions. The current mix contains ICT (innovation sectors), environment, energy and forestry. It is recommended to also include water and agriculture (food ingredients) and in the more industrialised countries (e.g. Vietnam) also manufacturing industries.

7. The evaluation recommends for the MFA to prepare for comprehensive evaluations of its current private sector development instruments: Finnfund and Finnpartnership. In the case of Finnfund a comprehensive evaluation is needed to overcome the limitations of the case study in the framework of this evaluation, largely caused by the difficulty in accessing confidential information on investments and investees supported by Finnfund. In the case of Finnpartnership an evaluation is in order to investigate how current shortcomings in this relevant instrument for Finnish private sector involvement can be overcome. Two more specific recommendations that already resulted from the Finnfund and Finnpartnership case studies in this evaluation also could be further investigated:

- **Finnfund, Finnpartnership and MFA are recommended to improve mutual information exchange on their strategies and activities.** MFA should provide clearer instructions to Finnpartnership and Finnfund, as PSD instruments in the AFT portfolio, to exchange more information on their activities to other relevant MFA departments, Embassies and to Team Finland. At the same time Embassies, Team Finland, Bilateral project partners and CTA’s and international and multilateral organisations should be instructed by MFA to pro-actively share information on business opportunities that emerge from ODA interventions and private sector development instruments to explore partnership possibilities with Finnfund and Finnpartnership that could increase the development outcomes of aid interventions.

- **MFA should investigate ways for more central steering of the PSD instruments to increase the development relevance of these instruments** in long-term Finnish partner countries and to ensure cost-
effective and efficient use of embassy’s and Team Finland’s capacity in developing, transition and economic partner countries. This should be done while maintaining the demand orientation of these instruments. This requires different approaches for the current private sector instruments:

- **Finnpartnership**: apply more focus in technical support (advisory support, missions etc.) given by this facility on priority sectors and countries, while keeping the subsidy-facility open to all current eligible countries;

- **Finnfund**: use the annual guidance note to instruct Finnfund to regularly brief and debrief on its investment activities in partner countries. Apply extra facilities (or earmarking of special funds), such as the special risk facility and possible special sectoral funds to guide Finnfund towards priority sectors, countries and regions in the FDP. Increased risks for Finnfund caused by the increased steering should be covered by Government funds. If time frames still allow, this could be considered already within the current extra allocation of government budget to Finnfund.

8. **The evaluation recommends that the MFA and embassies discuss with AFT implementing partners on how to move away from production-focused projects and to strengthen approaches that focus on market development and international supply chain development.** This approach should also be linked with the ambition of the Finnish government to apply more Finnish value added in developing international trade and investment relations, which requires active participation of Finnish companies that are integrated in relevant international supply chains. The priority economic sectors in the FDP could serve as a basis to identify relevant supply chains and where possible and relevant Finnish companies. Different aid modalities and partnerships could be lined up along different levels of the supply chain. Such a new approach could be piloted in selected countries and sectors based on interest and “buy-in” of different stakeholders in partner countries and in Finland.

9. **The evaluation recommends that the MFA to improve management and accountability of AFT by further integrating it in the existing management structures with a decision-making mandate.** An important instrument for coordination is the FDP (and related CSs in long-term partner countries). Approval of budgets under pillars 2 and 4 of the FDP should go hand-in-hand with compulsory reporting on AFT CRS codes and AFT indicators. MFA could consider inviting external parties (CSO’s, Employers, Workers) in its high level steering committee for the FDP. Under the specific four pillars in the FDP, specific working groups could be established to provide more specific steering. The working groups for pillars 2 and 4 could again integrate external partners. More specific measures to improve management and accountability can include the following:

- The Development Policy Department should have the overall responsibility for AFT with clear leadership provided by the AFT ambassador. The department is accountable for strategizing, planning, monitoring,
and reporting (including to OECD-CRS) and overall integration of AFT in the FDP;

- Meetings between relevant MFA departments, Team Finland members, multilateral and international partners and other relevant actors with a mandate to develop and improve AFT should be mandatory and regular;

- Incorporate AFT in the work of the Quality Assurance Group (QAG) by modifying the QAG checklist to include AFT indicators and requesting comments/assessment on projects from AFT perspective;

- At the level of Finnish Embassies in developing countries, Team Finland members should be more actively involved in providing guidance and steering to the implementation of pillars 2 and 4 of the FDP at the country-level.

10. **The evaluation recommends that the MFA to focus its support to AFT-related international organisations on improving business enabling environment at the international or regional level and less on funding of projects implemented on the ground in specific partner countries.** The current process of downsizing the multilateral portfolio should be guided by reducing country-level earmarking or country or region specific projects to avoid overlapping or disconnected multilateral interventions in partner countries. Instead, support to AFT specific multilateral and international organisations should focus more on complementarity of international interventions that can influence country or regional specific business and trade enabling environments.
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EVALUATION TEAM

Team Leader. Mr Frans van Gerwen (Netherlands; Masters in Development Sociology and Masters in Strategic Management) has over 25 years of experience in international development cooperation and private sector development. He has acted as team leader of more than 20 large international and multi-country evaluations. Mr van Gerwen has extensive experience in international policy work and political dialogue, multi-stakeholder dialogue and partnership and capacity development. He has worked in over 50 countries in all continents. In this evaluation he had the overall evaluation leadership. He was responsible among others for the development of the evaluation matrix, research methodology and tools; coordination of the evaluation team and the evaluation process; he led all field missions and the research activities in Finland and produced the case study report on Finnpartnership and the comparative study on Private Sector Development policies and instruments in the Netherlands. He was responsible for the production of the final evaluation report.

International development policy expert. Ms Pirkko Poutiainen (Finland; MSc Social Politics) is a social scientist with over 25 years of experience in international development cooperation. Most of her experience is linked to the Ministry for Foreign Affairs of Finland and multi-lateral development agencies, from concrete implementation to aid agency level with policy and management issues and crosscutting objectives (gender and human rights). This includes work at the World Bank HQ and two UNDP country offices. She has comprehensive experience in result-based project cycle management from design, planning, appraisal and implementation to project, policy, multi-country and -sector evaluations. In this evaluation she has focused on the MFA development policy principles and guidelines, results-based management, M&E, cross-cutting objectives. She participated in Zambia and Vietnam field missions and was responsible for the Zambia country study.

International entrepreneurship expert. Mr Karsten Weitzenegger (Germany; Masters in Political Sciences). Mr. Weitzenegger has more than 15 years of professional experience in international co-operation. He is an expert on developing participatory organisational changes in the field of social and economic policy. His experience includes more than 20 field evaluations focusing of impact assessments and recommendations for increased effectiveness and sustainability. In this evaluation he focused on the analysis of the business enabling environment and enterprise development. He participated in the field mission to Tanzania and was responsible for the elaboration of the Tanzania country study. Furthermore, he led the case study on Finnfund and conducted the comparative private sector policy and instruments study in Denmark and elaborated the respective reports.

International trade expert. Dr Saul Alanoca (France; PhD in Economics). Dr Alanoca has 25 years of worldwide experience as Trade Adviser, Team Leader (TL) and Project Director in technical cooperation projects financed by the European Commission and international donors (ADB, DFID, UNIDO, ITC /UNCTAD-WTO). He has evaluated trade projects in Bangladesh, Central America, Costa Rica, Dominican Republic, Haiti, Paraguay and others. His contribution to the evaluation research was on trade capacity development, regional and international trade, agriculture, natural resources and energy. He participated in the field mission to Zambia and conducted the analysis of the interventions with multilateral and international organisations in the AFT portfolio of MFA. He contributed to the Zambia country study and the study on the multilateral and international AFT project partners.
Research assistant. Ms Aino Efraimsson (Finland; BA Honours Development Studies). Aino Efraimsson is an Assistant Manager at FCG International Ltd. and is currently pursuing her Master’s studies at the University of Helsinki. She has nearly two years of experience working in the field in Southern and South-Eastern Asia including Vietnam, Nepal and Cambodia in Finnish funded projects and six months of multilateral experience from the UNDP Kenya country office. Ms Efraimsson has provided overall support to the surveys conducted in this evaluation and has conducted the analysis of the sections with the survey results. Furthermore, she has provided inputs to the country study on Tanzania and has conducted analysis of Finnish documents on AFT, minutes of meetings on AFT and guidance notes for international AFT partners and Finnfund. Ms Efraimsson has provided major editing support of most sections in the final evaluation report.
ANNEX 1: TERMS OF REFERENCE FOR THE EVALUATION

1. BACKGROUND TO THE EVALUATION

Aid for Trade (AFT) is an initiative that was born from the negotiations of the World Trade Organization’s (WTO) Doha round shortly before the Hong Kong ministerial conference in the autumn of 2005. AFT has since featured on the agenda of almost all the main trade, economic and development conferences.

AFT is a generic term for development cooperation that aims to strengthen developing countries’ productive capacity and ability to engage in foreign trade in order to achieve sustainable economic development and reduce poverty. The objective of AFT is the eradication of extreme poverty and securing a life of human dignity and its scope has been mutually agreed by the OECD.

Finland has influenced the development of the international Aid for Trade initiative by actively participating in the work of the EU, OECD, WTO and UN. Finland’s own AFT activities have increased up to the recent years and Finland has become a significant donor to and actor in many key multilateral trade and development organisations and programmes.

In principle, AFT can be defined as technical assistance or as a broad theme:

- The narrow definition of Aid for Trade is “trade-related (technical) assistance”, which covers trade policy and regulations and trade development.
- The broad definition of Aid for Trade includes the narrow definition and covers also economic infrastructure, building productive capacity and trade-related adjustment.

Finland’s AFT policy has been based on the broader definition of AFT. The most recent policy guidelines for AFT in Finland’s development policy are the following.

- “Aid for Trade – Finland’s Action Plan 2008–2011” that was adopted in autumn 2008. The Action Plan ended in 2011 when Finnish AFT was evaluated at the first time.
- Aid for Trade – Finland’s Action Plan 2012 – 2015 “Creating jobs through private sector and trade development”.

The first action plan was evaluated in 2011 (Evaluation report 2011:4 Finnish Aid for Trade, http://form-in.finland.fi/public/default.aspx?contentId=238898&nodeId=49326&contentlan=2&culture=en-US). According to the evaluation, the overall view of Finland’s AFT cooperation was positive; AFT had in general reached broad-based support and Finnish expertise had been globally recognized as excellent. The evaluation recommended developing AFT cooperation in a more systematic direction, increasing understanding and knowledge, reducing fragmentation in cooperation and strengthening results-based management and cross-cutting objectives.

The second action plan was built on the recommendations of the evaluation and also proposes a new AFT evaluation to be commissioned in 2015. The new action plan also builds on the 2012 development policy programme, (http://formin.finland.fi/public/default.aspx?contentid=251855&nodeid=49559&contentlan=2&culture=en-US ) which set four priority areas for Finland’s development policy. Two of the priority areas were “An inclusive green economy that promotes employment” and “Sustainable use of natural resources and environmental protection”. The AFT Action Plan 2012–2015 was created as the main implementation plan for these priority areas.
2. CONTEXT

Finland’s development policy programme 2012 lines up Aid for Trade (AFT) to promote healthy entrepreneurship and the creation of decent jobs, strengthens the productive capacity, investments and the economic infrastructure in developing countries as well as supports developing countries in implementing trade agreements. AFT also improves preconditions for entrepreneurship in developing countries as well as promotes women's and young people’s full participation in productive activities. The enabling environment for private sector and business must be supported also in fragile states. The policy programme states also that the opportunities of Finnish enterprises’ to participate in poverty reduction, responding to global development challenges and promotion of the green economy will be supported through a wide range of partnerships among the public and private sectors and civil society.

According to the policy programme new 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. One new cooperation modality is BEAM - Business with Impact, which is a joint programme of the Finnish Funding Agency for Innovation (TEKES) and MFA and aims to generate new sustainable business in developing countries.

Finland’s updated Action Plan 2012–2015 for Aid for Trade “Creating jobs through private sector and trade development” was launched in late 2012. It outlines one overall objective for Finnish AFT and four goals through which the overall objective will be achieved. Each goal includes two focus themes. The purpose of the focus themes is to profile Finland’s activities in international development policy and promote project and programme level activities in areas that are regarded as important. The updated Action Plan also sets out a Results Chain and Framework with one indicator for the overall objective, each goal and focus theme, respectively.

The overall objective of Finland’s Aid for Trade is that the private sector creates decent employment and opportunities for entrepreneurship for all.; Indicator: Number of jobs; total and disaggregated by sex. The goals and focus themes with their indicators are listed below:

**Goal 1** A sound business-enabling environment promotes private sector activity

Indicator: Number of new enterprises

- Focus theme 1.1 Inclusive business; Indicator: Number of micro- and small enterprises
- Focus theme 1.2 Women’s entrepreneurship; Indicator: Number of women-owned enterprises

**Goal 2** Developing countries benefit from international trade and investment

Indicator: Net export revenues, foreign direct investment

- Focus theme 2.1 Strengthening the capacity of the poorest countries to benefit from the international trading and investment system; Indicator: Activity of the poorest countries in the world trading system (WTO, regional and bilateral arrangements)
- Focus theme 2.2 Regional cross-border trade; Indicator. Time spent at the border by trader/entrepreneur/enterprise

**Goal 3** Economic activity is based on the sustainable use of natural resources

Indicator: Ratio of agricultural and forestry production to the amount of land used for such production

- Focus theme 3.1 Agricultural and forestry value chains; Indicator: Number of participants in value chain networks/cooperation
- Focus theme 3.2 Renewable energy; Indicator: Number of enterprises receiving sustainable energy services for productive and/or commercial activities
**Goal 4** People’s skills and knowledge produce innovative economic activity

Indicator: Number of new enterprises in non-traditional sectors

- Focus theme 4.1 Use of information technology for innovative economic activity; Indicator: Number of new ICT services and ICT-service enterprises
- Focus theme 4.2 Youth employment, youth entrepreneurship and vocational skills development; Indicator: Number of young people (under 24 years) who have received vocational training

Implementation of the Action Plan is divided into three main categories of actions:

1. Cooperation at country and regional level
2. Multilateral and EU cooperation and
3. Partnerships with companies, civil society organizations and other actors.

Among the other things, the development policy programme 2012 mandates MFA to revise AFT action plan.

### 3. PURPOSE AND OBJECTIVE OF THE EVALUATION

The evaluation will serve strategic planning and decision making needs by providing informed concrete, practical and innovative recommendations that are based on objective data and analysis as well as logical conclusions.

**The purpose** of the evaluation is to provide evidence based information on the success of and practical guidance on Finland’s AFT. This information will feed in the next update of the Action Plan on Aid for Trade or related theme, especially on how to 1) improve the results based management approach in AFT programming for management, learning and accountability purposes and 2) how to improve the quality of implementation of Finnish AFT.

**The objective** of the evaluation is to provide evidence on the successes and challenges of the Finnish AFT 1) by assessing the feasibility of strategic choices made in the action plan, 2), by validating the reported results in selected result areas and implementation modalities as well as identifying possible unexpected results of Finland’s AFT; 3) by aggregating the validated results and good practices at MFA level and 4) by assessing the feasibility of the AFT Action Plan for the purposes of results based management of MFA.

### 4. SCOPE OF THE EVALUATION

The temporal scope of this evaluation is 2012-2015. The evaluation will cover all current implementation modalities of Finnish AFT, i.e. country and regional level, multilateral and EU cooperation as well as partnerships with companies, civil society organizations and other actors.

This evaluation will assess Finnish AFT on policy level by analyzing the policy guidance of AFT and on implementation level by verifying and validating the reported results and aggregating them on global level. Furthermore, a more thorough case study will be conducted on Finnfund and Finnpartnership as they are the main instruments engaging the private sector to development work.

Concessional credits are excluded from this evaluation due to the fact that it was decided in the development policy programme 2012 that they will be replaced with new cooperation modalities. BEAM is also excluded from this evaluation because it will be evaluated separately as a real-time evaluation.
5. ISSUES TO BE ADDRESSED AND EVALUATION QUESTIONS

The evaluation issues will be analyzed using the OECD/DAC and EU evaluation criteria (relevance, efficiency, effectiveness, sustainability and impact). The evaluation will assess Finnish AFT on policy level and on implementation level.

First, the evaluation will analyze the development policy guidance of AFT and consistency of the Action Plan with the guiding policies. It will assess the consistency of Finnish AFT with the needs and priorities of stakeholders including final beneficiaries. The evaluation will also analyze how AFT is positioned in MFA organization and how does the Action Plan contribute to the results based management in MFA. Furthermore, the evaluation will assess the applicability of strategic choices made in the Action Plan and whether this approach could be utilized in other activities. It will also assess how different implementation modalities contribute to the Development Policy Programme and to the AFT Action Plan taking into account the special features and administrative structures of different modalities.

Second, the evaluation will analyze the implementation of the Action Plan through different implementation modalities. It will assess how the objectives and goals outlined in the Action Plan have been achieved. The evaluation will verify and validate the reported results and aggregate them on global level. Furthermore, the evaluation will assess what kind of results has been reported and how they have been calculated. It will also analyze possible gaps in reporting and reasons for insufficient reporting. In addition, the evaluation will assess how the cross cutting objectives and human rights based approach are achieved in AFT implementation. It will also assess the complementarity between AFT and other sectors and themes as well as the complementarity between different AFT implementation modalities.

Third, this evaluation will produce a case study on two private sector instruments, Finnfund and Finnpartnership. The case study will analyse how these private sector instruments contribute to the achievement of the objectives of Finland’s Development Policy and the AFT Action Plan, identify possible gaps and assess the compatibility of private sector instruments with the Action Plan and its result framework taking into account the special features of these instruments, their administrative structures and their other obligations. For example, Finnfund must also follow the legislation and regulation set for government-owned companies and possible complementarities and discrepancies between the AFT Action Plan and the other regulations will be analysed. The case study will also assess what kind of results and which goals of the Action Plan are achieved by the private sector instruments as well as the possible impacts of achieving them, both intended and unintended. The case study will verify and validate reported results by choosing a representative and justified sample based on which generalizations, conclusions and deductions can be made. The case study will assess the private sector instruments also from the perspective of Finnish companies. Furthermore, the case study will benchmark these instruments with similar instruments of other donors, for example Netherlands and Denmark.

The main evaluation questions are the following:

- Has the Finnish AFT succeeded in realizing Finland’s Development Policy Programme 2012 and more specifically its priority areas of an Inclusive Green Economy that Promotes Employment and the Sustainable Management of Natural Resources and Environmental Protection?
- Has the Action Plan 2012-2015 succeeded in guiding the implementation of Finnish Aid for Trade and how effective has the implementation been?
- How do the private sector instruments Finnfund and Finnpartnership contribute to the overall Finnish AFT?
6. GENERAL APPROACH AND METHODOLOGY

The main method used in this evaluation will be document review combined with statistical review and interviews of the key stakeholders in Finland, in relevant agencies and in partner countries. Field visits will be made to Zambia, Tanzania and Vietnam. The approach and working modality will be participatory.

The evaluation team is expected to reconstruct a theory of change model of the AFT Action Plan describing the interaction between the elements in the Action Plan and dynamics of the intended result chains and prepare more elaborated evaluation questions as well as sub-questions based on the change theory approach. The Approach section of the Tender will present an initial plan for the evaluation including the methodology and the evaluation matrix. The methodology and matrix will be discussed and revised in the workshop organized together with the kick off meeting. The evaluation plan and matrix will be finalized during the inception period and they will be presented together with the context analysis and desk study.

The methods of analyzing data will be mixed multiple methods (both quantitative and qualitative) to enable triangulation in the drawing of findings. If sampling of documents is used, the sampling principles and their effect to reliability and validity of the evaluation must be elaborated separately. The evaluation team is expected to propose a detailed description of data collection and analysis methodology in the inception report.

Statistical evidence and supportive information must be presented on aggregated results related to private sector funding instruments as well as other implementation modalities, where possible. In addition, international comparisons should be used when assessing the success of the Finnish AFT.

7. EVALUATION PROCESS, TIMELINES AND DELIVERABLES

The evaluation consists of three phases and each phase includes certain meetings and deliverables listed below. It is highlighted that a new phase can be initiated only when all the deliverables of the previous phase have been approved by EVA-11.

The kick off meeting and a workshop regarding the methodology of the evaluation will be held with the contracted team in September-October 2015. The purpose of the kick off meeting is to go through the evaluation process and related practicalities. The workshop will be held right after the kick off meeting and its purpose is to provide the evaluation team with a general picture of the Finnish AFT. Furthermore, the evaluation methodology and the evaluation matrix are discussed and revised during the workshop.

An Inception phase is between September and November 2015 during which the evaluation team will produce a final evaluation plan with a context analysis. The context analysis includes a document analysis (desk study) on AFT.

The evaluation plan consists of the reconstructed theory of change, evaluation questions, evaluation matrix, methodology (methods for data gathering and data analysis, as well as means of verification of different data), final work plan with a timetable as well as an outline of final report.

The Implementation phase will take place in November - February 2016 and it includes the field visits to Zambia, Tanzania and Vietnam. The consultant will organize a debriefing meeting at the end of each field visit. A joint debriefing and validation meeting can be arranged in Helsinki in the end of February 2016.

The validation seminars work like learning seminars based on initial findings, but also for validating the findings. The outcomes and further findings drawn up from seminar discussions can be utilized when finalizing the report.
It should be noted that a representative of EVA-11 may participate in some of the field visits as an observer for the learning purposes.

The **Reporting and dissemination phase** will produce the Final report and organize dissemination of the results. A public presentation of evaluation results, a public webinar and other discussion meetings will be held in April 2016.

The reports will be delivered in Word-format (Microsoft Word 2010) with all the tables and pictures also separately in their original formats. Time needed for the commenting of the draft report(s) is two weeks. The language of all reports and possible other documents is English. The consultant is responsible for the editing, proof-reading and quality control of the content and language.

It should be noted that internationally recognized experts may be contracted by MFA as external peer reviewer(s) for the whole evaluation process or for some phases/deliverables of the evaluation process, e.g. final and draft reports (evaluation plan, draft final and final reports). The views of the peer reviewers will be made available to the Consultant.

8. EXPERTISE REQUIRED

The competencies of the team members shall be complementary.

All team members shall have fluency in English. It is also a requirement to have one senior team member fluent in Finnish as a part of the documentation is available only in Finnish. Online translators cannot be used with MFA document material.

Detailed team requirements are included in the Instructions to the Tenderers (ITT).

9. BUDGET AND PAYMENT MODALITIES

The evaluation will not cost more than 300 000 € (VAT excluded). The payments will be done in all-inclusive lump sums based on the progress of the evaluation.

10. MANAGEMENT OF THE EVALUATION AND THE REFERENCE GROUP

Development Evaluation Unit EVA-11 will be responsible for overall management of the evaluation process. EVA-11 will work closely with other units/departments of the Ministry and other stakeholders in Finland and abroad.

A reference group for the evaluation will be established and chaired by EVA-11. The mandate of the reference group is to provide advisory support and inputs to the evaluation, e.g. through participating in the planning of the evaluation and commenting deliverables of the consultant.

The tasks of the reference group are:

- Participate in the planning of the evaluation
- Participate in the relevant meetings (e.g. kick off meeting and workshop, meeting to discuss the evaluation plan, wrap-up meetings after the field visits, presentations)
- Comment on the deliverables of the consultant (i.e. evaluation plan, inception report, draft final report, final report) with a view to ensure that the evaluation is based on factual knowledge about the subject of the evaluation
- Support the implementation, dissemination and follow-up on the agreed evaluation recommendations.
From evaluation management point of view a personal attendance of the team leader and the key evaluators as well as the home office coordinator (if a separate person) is required in kick off meeting and workshop, inception meeting, as well as in presentations for management and broader public.

11. MANDATE

The evaluation team is entitled and expected to discuss matters relevant to this evaluation with pertinent persons and organizations. However, it is not authorized to make any commitments on behalf of the Government of Finland. The evaluation team does not represent the Ministry for Foreign Affairs of Finland in any capacity.

All intellectual property rights to the result of the Service referred to in the Contract will be exclusive property of the Ministry, including the right to make modifications and hand over material to a third party. The Ministry may publish the end result under Creative Commons license in order to promote openness and public use of evaluation results.

12. AUTHORISATION

Helsinki 24 June 2015

Jyrki Pulkkinen
Director
Development Evaluation Unit
Ministry for Foreign Affairs of Finland
ANNEX 2: PEOPLE INTERVIEWED DURING EVALUATION PROCESS

N.B. Titles and positions reflect the situation that prevailed at the time of the interviews in 2015 or 2016.

FINLAND

Ministry for Foreign Affairs in Finland

Office of the Under-Secretary of State/Development Evaluation
Jyrki Pulkkinen, Director, Development Evaluation
Riiitta Oksanen, Senior Adviser, Development Evaluation
Ilona Mattila, Evaluation Officer
Pauliina Paananen, Development Evaluation Expert, Development Evaluation

Department for External Economic Relations
Antti Piispanen, Commercial Counsellor
Kent Wilska: Commercial Counsellor (member of evaluation reference group)

Development Policy Department
Pekka Puustinen, Director General
Mika Vehnamäki, Senior Economic Adviser (member of evaluation reference group)
Miika Paajavuori, Senior Officer
Max von Bonsdorff, Senior Adviser on Economic and Results Management (Unit for Development Policy)
Katja Hirvonen, Programme Officer (Unit for Civil Society)

Sinikka Antila, Ambassador, Senior Advisor (Trade and Development)

Department for Development Financing Institutions
Janne Sykkö, Team Leader (member of evaluation reference group)
Sargit Salakari, Second Secretary Concessional Credits, Finnpartnership
Department of Statistics:
Miikka Paajavuori, Statistics Officer

Department for Africa and the Middle East
Pertti Anttinen, Ambassador and Senior Adviser
Vuokko Jutila, Counsellor
Matti Tervo, Programme Officer

Unit for Southern Africa, Department for Africa and the Middle East
Harri Sallinen, Team Leader (Zambia, Zimbabwe and Malawi)
Marja Ahonen, Zambia Team Member, Unit for Southern Africa

Unit for Eastern and Western Africa, Department for Africa and the Middle East
Eskonheimo, Anu, Programme Officer (Horn of Africa)
Unit for Eastern Asia and Oceania
Minna Hares, Programme Manager

Unit for Administrative and Legal Development
Tomi Särkioja, Senior Adviser (Development Policy)

ClimateWedge
Kristian Brüning, Director

Comboral
Anna-Maija Raeste, Chairman

Econet
Taina Dammert, Quality and Environmental Manager

Fairtrade Finland
Janne Sivonen, Executive Director

Finnfund
Jaakko Kangasniemi, Managing Director, CEO
Tapio Wallenius, Senior Adviser, Director, Impact and Communications
Anu Kurhila, Analyst Portfolio and Risk Management
Helena Arlander, Director, Portfolio and Risk Management
Helena Teppana, Senior Investment Manager
Janne Penttilä, Collaboration Coordinator
Riikka Talvitie, Senior Portfolio Manager, Private Equity
Tuomas Suurpää, Senior Investment Manager
Vera Iija, Development Impact Adviser

Finnmap
Sami Frestadius, Sales Manager

Finnish Water Forum
Markus Tuukkanen, Managing Director

Finnpartnership
Siv Ahlberg, Programme Director

Finnwatch
Sonia Vartiala, Executive Director

Fuzu Oy
Jussi Impio, Founder Director

GreenStream
Jussi Nykanen

Haaga-Helia, University of Applied Sciences
Pasi Halmari, Program Manager Global Education Services

Indufor
Marko Katila, Senior Advisor

KEPA
Niina Mäki, Policy and Advocacy Officer (development cooperation)
Konecranes
Hannu Parkkola

Labour Institute for Economic Research
Mari Kangasniemi, Senior Economist

Prime Minister’s Office
Peter Westerstrahle, Senior Specialist Government External Economic Relations Unit

SAK
Aleksi Kuusisto, Advisor for International Affairs

SASK
Janne Ronkainen, Executive Director
Tarja Valtonen, Programme Officer for Africa

THEY
Sari Koivuniemi, International Affairs Director

Trade Union Pro
Matti Koskinen, Head of International Affairs

Wärtsilä
Tuomas Haapakoski

INTERNATIONAL ORGANISATIONS

International Trade Centre
Mr. Rajesh Aggarwal Chief Trade Facilitation & Policy for Business
Ms. Zeynep Ozgen, Senior External Relations and Governance Officer (onor focalpoint)
Miguel Jimenez, Head of Monitoring and Evaluation Unit
Kevin Musa, Associate Trade Promotion Adviser, Africa
Sebastien Turrel, Senior Trade Promotion Officer, Africa
International Centre Trade Sustainable Development (ICTSD)
Ms. Sofie Flensborg, Manager, Strategic Partnerships

OECD
Frans Lammersen, Principal Administrator in the Development Co-operation Directorate

Permanent Mission of Finland in Geneva
Katja Karppinen-Njock, Counsellor

UNCTAD
Raul Javaloyes, Official in Charge of Technical Cooperation Services

UNIDO
Soeren Selander, Donor Relations Officer, Strategic Donor Relations Division, Department of External Relations
Bernardo Calzadilla-Sarmiento, Director, Department of Trade, Investment and Innovation
Karl Schebesta, Chief, Food Systems and Nutrition Division, Department of Agri-Business Development
Virpi Stucki, Industrial Development Officer, Agro-Industries Technology Division, Department of Agri-Business Development
Dorina Nati, Consultant, Department of Trade, Investment and Innovation

World Trade Organisation
Deborah Barker, Assistant Aid-for-Trade Coordinator

Institute for Training and Technical Cooperation (ITTC)
Ms. Bridget Chilala, Director
Faustin Mukela Luanga, Head Asian and Pacific Desk ITTC

Enhanced Integrated Framework
Ratnakar Adhikari, Executive Director EIF
James Edwin Coordinator, Monitoring, Evaluation
Sabrina Varma, Partnerships Coordinator

Advisory Centre on WTO Law (ACWL)
Niall Meagher, Executive Director
Standards and Trade Development Facility
Melvin Spreij, Counsellor, Secretary to the Standards and Trade Development Facility

DENMARK

Embassy of Finland Copenhagen
Kirsti Pohjankukka, Minister Counsellor, Deputy Head of Mission

Ministry of Foreign Affairs of Denmark
Geert Aagaard Andersen, Head of Department, Ambassador
Lene Mollerup, Adviser, Danida Business Finance

access²innovation
Jacob Ravn, CEO

Global Opportunity Network
Anders Vestergaard Jensen, Senior Analyst

IBIS Education for Development
Sara Jespersen, Project Manager Tax and Development

IFU Investment Fund for Developing Countries
Ib Albertsen, Investment Director, DANIDA/IFU Small and Medium Enterprises Investment Facility

UNDP Nordic Representation Office
Stine Kirstein Junge, Partnership Analyst

NETHERLANDS

Netherlands Ministry for Foreign Affairs
Jan Bade (IOB, Evaluation Department)
TANZANIA

Embassy of Finland, Dar es Salaam
Pekka Hukka, Ambassador
Mikko Leppänen, Counsellor Natural Resources
Oskar Kass, Counsellor Economic Growth
William Nambiza, Programme Coordinator, Natural Resources and Inclusive Growth
Simo-Pekka Parviainen, First Secretary, Dep. Head of Mission
Clara Ruhara, LCF and ICI Officer
Venla Voutilainen, Coordinator, Governance, Aid for Trade

ANGONET

Peter Bayo, Coordinator/Chairperson

ARTI Energy

Nachiket W. Potnis, Executive Director

COSTECH

George Mulamula, Chief Executive Officer & Senior Government Advisor (ICT & Entrepreneurship)
Dr. Flora I. Tibazarwa, Director Life Sciences

DFID

Tim Lamont, Senior Growth Trade & Investment Advisor, East Africa

Embassy of Sweden, Dar es Salaam
Josefin Bennet Fredriksson, Bilateral Associate Expert, Private Sector Collaboration
Inger Lundgren, Development Cooperation Division

Embassy of the Netherlands, Dar es Salaam
Eugene C.M. Gies, First Secretary Economic and Trade Policy

International Potato Center
Rogers Kakuhenzire, Ph.D., Country Project Manager, Seed Potato Development Project
KEPA
Eva Nilsson, Policy Advisor

Kilombero Valley Teak Company Ltd.
Hans Lemm, CEO

Light for Light Foundation (LCF-project)
Patrick E. Ngowi, Director

Ministry of Energy and Minerals
Eng. Norbert A Kahyoza, Assistant Commissioner for Energy (Natural Gas),
Christopher Bitesigirwe, Energy Engineer (Responsible Officer for Finnish Projects)
Christopher Bitesigirwe, Energy Engineer
Eng. Leonard R. Masanja, Principal Engineer

Ministry of Industry, Trade and Investments
Stephenson Ngoda, Project Coordinator, EIF Focal point

Ministry of Natural Resources and Tourism (Forestry)
Gladness Mkamba, Director Forest & Bee Keeping, Tanzania Forest Services
Deusdedith Bwoyo, PFP Desk officer

Ministry of Works, Transport and Communications
Clarence Tchwekeleza, Director of Communication Services
Arnold Masaro, National Project Coordinator

Mkaa Mkombozi (EEF Project)
Manon Lelievre, Project Manager

Mobisol (Finnfund investee company)
Shaun Coggings, Chief Administration Officer

Mufindi Wood Plantation & Industry Ltd.
Godfrey K. Mosha, Director
Niras
Meeri Komulainen, Chief Technical Adviser Limas

Precision Air Services PLC (Finnfund investment)
Michael Shirima, Chairperson

Private Forestry Programme (PFP)
Michael Hawkes, Team Leader
Nick Moore, Timber Value Chain Expert
Juhani Pekkala, Plantation Forestry Advisor
Asko Siintola, International Junior Expert
Sangito Sumari, National Private Forestry Advisor
Hanne Vaarala, Capacity Building and Communication Advisor

Sibesonke Tanzania Ltd.
Shubi Mukolera, Business Development Officer

SIDO – Women’s Enterprise Development (ITC cross-border trade project)
Happiness Mchomvu, Women Entrepreneurship Development Programme Coordinator

Sokoine University Graduate Enterprises Cooperative Society (SUGECO)
Anna Andrew Temu, Chair and Founder

Sokoine University of Agriculture
Josiah Zephania Katani, Ph.D., Department of Forestry Mensuration & Mgt.

TANESCO
Deogratias Msaki, Project Officer, Dar Energy Rehabilitation

TANTRADE
Fidelis B. Mugenyi, Director of Trade Support Services & Twilumba Mlelwa, Economist

Tanzania Environment & Tourism Education Organisation (TETEO) (LFC project)
Aily Makiady, Executive Director
Tanzania Freight Fowarders Association (TAFFA)
Stephen Ngatunga, President

Tanzania Ports Authority
Hebel Mhanga, Dar es Salaam Ports manager

Tanzania Private Sector Foundation
Reheema Mashaka, M&E Officer

TMEA-EAC Programme
Jason Kap-Kirwok, Senior Director TMEA-EAC Programme
Josephat Magita Fredy, Partnership Liaison Officer

Trade Mark East Africa (Ministry of East African Community)
Josephat Kweka, Country Director, Tanzania

USAID
Adam Stefan, Private Sector Unit Lead

World of Weaving (LCF project)
Ms Rachel Kessi, Founder
Grace Matovelwa, Partner

VIETNAM

Embassy of Finland, Hanoi
Ilkka-Pekka Similä, Ambassador
Annina Barbosa, Deputy Head of Mission
Marko Saarinen, Counsellor / Head of Development Cooperation
Annika Kaipola, Counsellor
Mac Le Thu Hong, Programme Coordinator
Le Dai Nghia, Programme Coordinator
Le Thi Thu Huong, Programme Coordinator
BH Tech
Tran Vu Viet Anh, Managing Director

BY Niemi, Niemen Tehtaat Vietnam
Tuyet Nguyen, General Manager, Deputy General Director

College of Information Technology, University of Danang
Nuynh Cong Phap, Deputy Rector
Le Ha Nhu Thao, Vice Director of Student Affairs Office, Head of International Relations Unit

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Jeffrey Scheidegger, General Manager

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1 Introduction

Evaluation objectives and methodology

This case study serves the MFA in its strategic planning and decision-making needs, by providing informed, concrete and practical recommendations, based on objective data and analysis as well as logical conclusions. Finnfund is one of Finland’s main instruments engaging the private sector in economic development.

The case study follows the main evaluation question 3: “How do the private sector instruments Finnfund and Finnpartnership contribute to the overall Finnish AFT?”

The case study on Finnfund contains four different levels of analysis:

1. A basic desk-study and interviews on the policy and strategy of Finnfund and its role in Finland’s overall AFT approach and strategy. The full investment portfolio of Finnfund was subject to a basic desk-study;
2. A more detailed analysis of a smaller sample of the main investment modalities of Finnfund to enable a comparison of performance and results of these modalities;
3. A case study and detailed research of Finnfund projects and funds in the three country studies (1 in Zambia, 1 in Vietnam and 4 in Tanzania). Some national level representatives or key stakeholders were interviewed;
4. In addition to this analysis, a survey was sent out to Finnish companies that were involved in investment projects of Finnfund (at the company and also fund level), to gather data of Finnfund and its perceived impact on investee companies and funds.

The survey was conducted amongst Finnish companies, which have been or are being financed by the facility. There were 31 recipients of the survey, and with 23 (74%) responses, it serves as a valid sample for Finnish company experiences.

An additional component in both the Finnfund and Finnpartnership analysis is the comparative data analysis of similar Private Sector Development instruments used by the Dutch and Danish Governments.

At the start of the evaluation exercise, it became clear that Finnfund is not formally guided by the AFT Action Plan or other specific policies of the MFA. Finnfund is an autonomous Development Finance Institution (DFI) owned by the Government of Finland, Finnvera and Confederation of Finnish Industries. The Department for Development Finance Institutions at the MFA prepares annual a corporate guidance note to Finnfund, which is the only steering mechanism of MFA to guide Finnfund. The corporate guidance to Finnfund has not contained references to the AFT Action Plan (MFA 2012-2015), however its activities are relevant to the AFT since the Government support to Finnfund is labelled as AFT.

The ToR of the AFT evaluation does not contain specific evaluation questions on Finnfund. As such, this case study is not a full evaluation of Finnfund. Full and timely access to information on Finnfund's
investment activities and partners was limited and therefore this case study cannot be seen as a full and comprehensive evaluation of the institution. A comprehensive evaluation and in-depth research on relevance, operations and impacts of Finnfund would require a specific and tailored ToR, developed in agreement with the Government of Finland, Finnvera and Confederation of Finnish Industries as owners and MFA and Finnfund.

**Finnfund as Development Finance Institution**

The Finnish Fund for industrial Cooperation Ltd. (Finnfund) (Teollisen yhteistyön rahasto Oy) is a DFI that provides long-term investment loans and risk capital for private projects in developing countries and Russia. Finnfund’s mandate is to promote economic and social development in developing countries through responsible and profitable private projects.

According to the Finnfund Act, the Company shall promote the economic and social development of developing countries by directing human and material resources to the development of the industrial and other economic corporate activity of these countries.

Finnfund provides finance to companies, sometimes with the involvement and participation of Finnish companies, to be established and operating in developing countries. It does so by acquiring shares and holdings in such companies; by granting loans and guarantees; by allocating resources for studies and reports connected with start-up and development of operations of companies; as well as by participating in the development and financing of the financial sector that serves the industrial and other production-related corporate activity of developing nations or otherwise by initiating such measures.

Finnfund financing can be provided in the form of equity capital, mezzanine financing or long-term investment loans. Finnfund always takes a minority stake and leaves the management of the investee-company or funds to the main shareholders. Apart from co-investing with Finnish companies, Finnfund can finance ventures that use Finnish technology, cooperate with Finnish partners on a long-term basis or generate major environmental or social benefits at large, which is considered in the Finnish interest.

Finnfund is a company entrusted with a special assignment by the State. It belongs to the administrative sector of the Ministry for Foreign Affairs and has a special development policy mission. The oversight and mission of Finnfund is regulated by the Finnfund Act (291/79). The detailed content of the company’s special development policy function is assigned annually in a Corporate Guidance Note by the Ministry for Foreign Affairs on the basis of the development policy programme currently in force. The State of Finland currently owns 93.43% of Finnfund’s share capital, Finnvera plc owning 6.45% and Confederation of Finnish Industries owning 0.12%. The 0.12% ownership makes Finnfund formally a public-private partnership and as such the participation of the Finnish private sector is secured. The purpose of Finnfund is not to generate a profit for the shareholders, and thus all profit is reinvested.

Finnfund’s most important external stakeholders include the owners, key development policy operators (including non-governmental organisations), operators in the Finnish business sector (particularly the company’s client organisations), the company’s European sister organisations and co-investors (EDFI) and, on a case-by-case basis, local authorities in the target countries and other parties related to the projects financed by Finnfund. Finnfund aims to maintain regular and open interaction with its various stakeholders, identify their expectations and possible concerns and respond to these quickly and openly.

Finnfund is one of the smaller DFI’s in the EFDI association, as is illustrated below.
The participation of Finnfund in EDFI is very important, because it provides opportunities for Finnfund to leverage its financial funds. Additionally, it is also beneficial to share risks and save costs in identification, assessment and management of investments and investment funds.

In 2011, Finnfund and 24 other development finance institutions signed the Corporate Governance Development Framework, including a common set of guidelines on promoting good corporate governance in the companies they invest in, thus supporting sustainable economic development in developing countries.

Private sector stakeholders include companies in Finland interested in developing country markets and new technologies in these countries. They do not constitute a homogenous group, as they have highly varying roles. In the survey, in response to the question on the type of relationship with the investment client abroad, three categories, with nearly equal shares can be seen: co-investor, technology supplier or private ownership in a co-investor company with 30%, 35% and 35% respectively.
Figure 2: Roles of Finnish companies in Finnfund investments

<table>
<thead>
<tr>
<th>Role</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provision of knowledge</td>
<td>61.9%</td>
</tr>
<tr>
<td>Provision of capital (co-investor)</td>
<td>57.1%</td>
</tr>
<tr>
<td>Provision of goods/inputs to the investment</td>
<td>38.1%</td>
</tr>
<tr>
<td>As a buyer of goods/services from the investment</td>
<td>14.3%</td>
</tr>
<tr>
<td>Other (please specify)</td>
<td>23.8%</td>
</tr>
</tbody>
</table>

Q: What has been your involvement as a partner in this specific investment? N=22.

Source: Finnfund survey, February-March 2016

Most companies saw themselves as providing some type of expertise and knowledge to the investment. Multiple responses were allowed and thus respondents often chose the provision of knowledge as one of two responses. Most companies were involved as a co-investor (57%), followed by goods/inputs to the investment (38%) as seen in the figure above. Of co-investors 42% (8) had a majority share and 37% (7) a minority share between 10-49%. A significant majority of respondents (80%) anticipated their trade/business relations to continue with the partners involved in the coming five years.

Monitoring and reporting on Finnfund’s activities

Finnfund maintains a management information system suitable for a DFI of its size. Finnfund systematically monitors the achievement of its strategic goals, and provides transparent progress reports, which form an integral part of its management system. The monitoring is continuous and up to date for the entire portfolio. No baseline could be generated for the beginning of the AFT AP in 2012.

Each year, Finnfund gathers information on development effects of its past investments. This information is compiled to produce cross-sectoral indicators (such as jobs and tax revenue) for all Finnfund portfolio projects. The raw data comes from customers themselves so summary reports and are subject to a small lag while being checked. FF sends annual operational “Status Reports” to the MFA each September. Annual CSR Reports have been issued since 2012.

Finnfund follows the performance standards of the International Finance Corporation (IFC). In October 2013, Finnfund along with the other members of EDFI and 13 other International Finance Institutions (IFIs) signed a memorandum to foster collaboration and enhance private sector development impact. The “IFIs Harmonized Development Results Indicators for Private Sector Investment Operations” define units of measurement and reporting standards for 28 core indicators from 12 different sectors. Implementation of harmonized indicators will facilitate sharing of best practices and lessons learned among IFIs. Finnfund continues to work for more systematic assessment, monitoring and appraisal of development impacts.
Reporting to EDFI agglomerates results no matter how big or small the FF contribution is to the total investment. If several DFI’s cooperate, the same figures may be counted several times. If the tax footprint of Finnfund as a development financier would have to be determined, it would need to be defined in accordance with actual contributions of funding in the target country or funds invested in target companies. In project specific financing the sum can only include the taxes paid by a company under the specific project. Some companies have introduced this reporting method on the impact that taxes and tax-like payments levied on their operations have on the society surrounding the company.

The taxes paid by financed companies are one of the development impact targets of Finnfund’s corporate governance. The total tax income reported as one of the central development impacts of Finnfund activities contains all taxes reported by companies, whose financing (loan or equity) has only partly come from Finnfund. According to Finnfund, the largest taxpayers are “typically large companies, in which the direct or indirect share of Finnfund financing is small”. In other words, the share of Finnfund financing in investments could be only 10% in a particular company, but the indirect tax footprint includes 100% of that company’s tax payments in the target country.

The 2015 Corporate Guidance Note from MFA requires Finnfund to monitor indicators of the Finland’s Development Policy objectives which for example include direct and indirect jobs created, net taxes accrued, and balance of payment improvements (MFA 2012-2015). Additionally, the state of the environment and improvements in gender equality (position of women) is to be assessed.

Conclusions

- Specific performance indicators in the AFT action plan were not monitored by Finnfund, though on its overall indicator (number of jobs created) in 2014 data was provided. No baseline data is available to track changes over time. The data that is available covers long-term investment periods, not the specific AFT-AP timeframe and therefore cannot be specifically linked with the 2012-2015 timeframe of this evaluation;
- The Harmonized Development Results Indicators used by IFIs for private sector investment operations have only limited use for the AFT-AP results framework;
- Finnfund has many co-investors, including other European DFI and multilateral IFIs. Indicators are not weighted according to the share of the total investment. This makes the attribution analysis more difficult.

2 Relevance

Overall policy trends for private sector development

The Sustainable Development Goals (SDGs) have opened new opportunities for businesses in the achievement of global goals. The Sustainable Development Goals 8, 9 and 12, which deal with economic growth, employment, industrialization, innovation, and production and consumption patterns, underline the importance of inclusive and sustainable approaches, encouraging their application. The role of the private sector is not solely centred on financing and investment. The resources and the expertise of all the stakeholders are needed for new partnerships, in order to tackle global, multilevel and cross-sectoral problems.

The World Bank has identified access to finance as a major constraint to private sector growth in developing countries. In asking about constraints relating to engaging more actively in business relations with partners in developing countries, several stakeholders interviewed saw financing as the major constraint while others found local legislation, transparency and similar challenges in developing countries as the main causes of hindrances.
In 2016 the Finnish foreign policy emphasises trade even more than in 2012. The political attention has shifted from support to the private sector in developing countries towards partnership with Finnish companies in business activities for development in emerging markets. EU internal markets account for a considerable share of Finland’s foreign trade, but the majority of growing economies are outside the Union, including in developing countries.

Aid for Trade remains a priority for the Finnish Government. Finland continues to promote an open, rule-based free trade and global economy. Finland seeks the ability to more effectively influence the operating conditions of Finnish enterprises on both internal and external markets. The Foreign Service plays an important role in safeguarding the preconditions of Finnish enterprises for international operations and in attracting investments to Finland. According to the MFA, Finland’s challenging economic situation emphasises the importance of this task. Special attention is paid to the development of commercial and economic services as part of the Team Finland network.

The priorities of Finland’s development cooperation in 2016 (MFA 2016) also include peace-building democracy and development of the rule of law; as well as building the country’s own economy, including their own responsible business activities; and strengthening of the tax base. In all its international cooperation, Finland continues to emphasise human rights and the position of women and girls.

According to the Guiding Principles on Business and Human Rights approved by the UN in 2011, governments and companies have an obligation to protect human rights. Key aims of Finland’s National Action Plan for the Implementation of the UN Guiding Principles on Business and Human Rights (2014) are the legislative report, definition of the due diligence obligation, and the application of social criteria in public procurement.

**Finnfund’s objectives**

Finnfund’s special purpose is linked to Finnish development policy, i.e. it acts as a channel for Finnish development policy and cooperation. Finnfund is in fact one of the most important tools of Finnish development policy in relation to supporting the private sector in developing countries.

From the perspective of the state owner, the development impacts of Finnfund activities are highly relevant as the generation of positive development impacts is its defined special purpose. The most relevant objectives of Finnish Development Policy for Finnfund relate to economic and social development. The private sector contributes to development in multiple ways. Most importantly, it creates jobs, supplies communities with products and services and provides tax revenues to local authorities. Electricity, water, transport and other infrastructure services also increasingly rely on private sector participation. Finnfund is the main private sector link in the AFT-AP.

Finnfund makes equity investments or provides clients with long-term investment loans, with subordinated loans or other mezzanine financing, or with guarantees needed to access financing in local currency. Through funds and financial institutions Finnfund also finances local small companies, mostly in the poorest countries.

The annual Corporate Guidance Notes since 2013 (MFA 2012–2015) set the following four objectives for Finnfund, which are largely in line with the AFT AP (MFA 2012a).
The positive development impacts of Finnfund investments will increase and the capacity of the company to assess and report on the development impacts of its investments improve.

The investments of Finnfund facilitate the creation of broad-based economic development that reduces poverty in countries, whose economic institutions are weak.

Finnfund carries out its activities in a cost-efficient manner and develops tools for defining cost efficiency based on international comparisons.

Finnfund is self-sustainable.

The Corporate Guidance Notes set the goal that Finnish development cooperation should primarily be targeted to countries, whose institutions have significant challenges in generating the necessary economic development and have a need for international support. The above mentioned need to be reflected in the portfolio of Finnfund. The meeting of this objective is monitored and measured by the volume of Finnfund’s investments in low-income and lower-middle-income countries.

Objective 3 has two Indicators:

- The share of investments in low-income and lower-middle-income countries in new investment decisions of Finnfund (Number of projects, Value of projects);
- The share of projects of project investment decisions made, which directly serve the poor population.

The special development policy purpose of Finnfund is the opportunity provided by its financing to facilitate and guide Finnish companies and their partners to mobilise investments in the private sector of developing countries that promote sustainable development, benefits for the poor, and stimulate inclusive economic growth (reducing inequality). The financing instruments of Finnfund allow for sharing of risk between different investing parties and for the utilisation of Finnfund’s diverse expertise.

The development policy targets and areas of emphasis are also defined for each government term and its development policy objectives. In accordance with the Finnish Development Policy guideline approved in February 2012 “Finland strives to develop the private sector’s operating environment and cooperation modalities in partner countries, especially in ways which complement other Finnish development cooperation, particularly in the poorest countries” (MFA 2012b). Additionally, the programme emphasises the responsibility of companies for the economic, social and environmental impacts of their activities throughout the supply chain.

In accordance with these principles Finnfund is to promote corporate social responsibility in both its own activities and those of its partners. Finnfund must follow the ten principles of the UN Global Compact. Additionally, its activities must be environmentally sustainable: through the efficient use of all resources/raw materials; efficient recycling; protection of the environment from pollution/contamination and climate change; and the prevention of a loss in biodiversity.

Finnfund activities should produce value added in relation to the other instruments of Finnish Development policy and other actors in the finance sector such as multilateral financial institutions or private sector/commercial financing. This value added is found in the interface of development impacts and Finnish interests. Finnfund is to activate and encourage Finnish companies to act in collaboration. The projects of Finnish companies must always have strong development impacts. Projects, which are seen as being particularly sound/worthy from the perspective of Finnish development policy, can be supported without Finnish participation. Additionally, the central tenants of development policy are sustainable development and the environment; reducing inequality; human rights based approach; as well as good governance and democracy.
Conclusions

- Finnfund is a key player for Finnish AFT, however the AFT-AP mainly covers public sector and civil society actors. The private sector comes in via Finnfund and Finnpartnership, the latter being significantly smaller;
- The objectives for Finnfund are largely in line with the AFT-AP, objective, goals and focus areas;
- Finnfund focuses its funding and risk-sharing capacity on countries, sectors and projects, in which it is able to achieve the greatest development impact;
- Countries, sectors and projects are prioritized to maximize development benefits. Catalysing Finnish know-how for projects in developing countries is an important niche of Finnfund;
- Finnfund supports profitable projects in challenging markets where commercial financing is hard to obtain. Finnfund always needs to balance three criteria for funding: positive development impacts, responsibility and profitability. Finnfund confronts the typical dilemma of development finance: aiming for poverty reduction in the most difficult countries and sectors, while at the same time maintaining financial viability;
- The relevance of Finnfund for AFT is high and has even increased after 2012. With the Sustainable Development Goals (SDGs), the role of private sector is not solely centred on financing and investment. The resources and the expertise of all the stakeholders are needed for new partnerships, in order to tackle global, multilevel and cross-sectoral problems;
- Sustainable development and the obligation to protect human rights are increasingly relevant for businesses.

3 Effectiveness

Results on country orientation

Finnfund’s portfolio and undisbursed commitments as of August 31, 2015 amounted to EUR 584.1 million. The share of investments in low income and lower middle-income countries in new investment decisions of Finnfund has increased since 2012. Most investments are targeted at low-income and lower-middle-income countries and nearly 40% of the portfolio is in Africa. India is currently the single most important host country in terms of amount of projects. Considering monetary value of investments, Kenya, Tanzania and Honduras are the most important countries. The targeting of financing decisions made in 2014 at various income levels is shown in the table below.

<table>
<thead>
<tr>
<th>Income level</th>
<th>number</th>
<th>%</th>
<th>EUR million</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Least development countries</td>
<td>7</td>
<td>30</td>
<td>41.9</td>
<td>36</td>
</tr>
<tr>
<td>Low-income countries</td>
<td>2</td>
<td>9</td>
<td>6.9</td>
<td>6</td>
</tr>
<tr>
<td>Lower-middle-income countries</td>
<td>8</td>
<td>35</td>
<td>38.6</td>
<td>33</td>
</tr>
<tr>
<td>Upper-middle-income countries</td>
<td>5</td>
<td>22</td>
<td>26.0</td>
<td>23</td>
</tr>
<tr>
<td>Russia</td>
<td>1</td>
<td>4</td>
<td>2.0</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>23</strong></td>
<td><strong>100</strong></td>
<td><strong>115.4</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Finnfund 2015b.
Figure 4: Overview of Finnfund’s Target Countries, 2015


Figure 5: Geographical Distribution of Finnfund Portfolio

Source: Finnfund 2015b.
Results on poverty orientation

To directly serve the poor population in a share of projects is an indicator required by the MFA in steering Finnfund (Objective 3). Progress on this indicator is not clearly reported on in the FF Annual Reports. Finnfund achieves the challenge to reach poor countries, but does not necessarily focus on poor populations.

Microfinance and SME finance are the sections of the portfolio, which are most likely to have a direct effect on poor populations. About 3.4 million loans to microenterprises totalling EUR 1,800 million and about 87,500 loans to small and medium-sized companies totalling EUR 980 million were provided by microfinance institutions and banks supported directly or indirectly (within portfolios of equity funds) by Finnfund. Also other sectors can have an impact on poverty, e.g. energy or forestry.

Because the investments of Finnfund are, in accordance with the development policy programme, increasingly concentrating on poor countries and development impacts have a more central role in investment decisions, the risks have also increased. In order to partly cover this risk and to secure the financial sustainability of Finnfund the MFA has, in 2012, introduced special risk financing, in which the state shares the investment risk with Finnfund in projects with particularly high potential development impacts and risk. The special risk financing was effective until the end of 2015 and enabled Finnfund to finance more projects with a high level of financial risk but which have significant developmental impacts if successful.

Finnfund invests mainly with Finnish companies and their local partners, such as long-term customers, suppliers, sub-contractors and companies that license technology. In the poorest countries Finnfund generally co-invests with other development financiers, both in projects that use Finnish technology and in other projects that generate significant environmental or social benefits.

The FF portfolio is reasonably aligned sector-wise. Most of the investment projects are in manufacturing, but it also finances other sectors such as agribusiness, power generation, services and telecommunications. While funding is not tied to Finnish exports, Finnfund works mostly in sectors where the experience and competence of the Finnish business community can be harnessed to serve developing markets. Forestry, renewable energy, telecommunications and environmental technologies are priority sectors, along with manufacturing projects, many of which are linked to the above sectors.

Figure 6: Sectoral Distribution of Finnfund Portfolio

Source: Finnfund 2015b.
Finnish Private Sector views on results of Finnfund

Private sector stakeholders interviewed and surveyed expressed their overall satisfaction with Finnfund. Investee partners in the country studies appreciated the way Finnfund operations are managed and quality of dialogue.

Financial results were mixed for the co-investor who provided this information.

Of those that found the question applicable, when asked about the estimated return on investment as a co-investor company, 25% of companies said they had a significant increase and the same share said they had experienced a small increase at the time of responding.

Figure 7: Companies’ financial results with Finnfund

Q=In what category would you place your return on investment until present? N=12.

Source: Finnfund survey, February–March 2016

Some of the issues raised by Finnish businesses that participated in some form in Finnfund’s investments in the interviews and survey are summarised below.

Various business people expressed confusion about the Finnish institutional setup. They call for more practical support (information chats, trade fairs, exhibitions, marketing, travelling) rather than subsidized consultants. Especially small and medium-sized companies need more support to get/find working capital providers in developing countries. Some highlighted that private sector cooperation is always based on sustainable business models and return requirements, which bring efficiency and responsibility into the process. One criticised that Finland supports software industry and venture capital funds for gaming and entertainment purposes, but not enough for sustainable development solutions. Another criticised that FF loses time dealing with Finnish expats who are not serious entrepreneurs.

Respondents called for more width in the types of financing instruments available for the private sector, however e.g. one respondent felt that although there should be a toolbox of instruments within the same institution rather than the current situation with several different bodies providing services targeting private sector engagement in developing countries.
Recommendations from business people include:

- Concentrate on development of fewer organizations with stronger resources. Unify the support institutions into one single institution with several “products”;
- In-country support (Embassies, Team Finland, Finpro) should be able and strongly encouraged to provide free ad-hoc networks, advice and services. Encourage businesses to use support of local embassies;
- There should be more width in financial support mechanisms (credit enhancement, guarantees, small-scale asset finance). Also it would be better to focus on paying for the results (not for analyses etc.) and measure the outcome of the activities more accurately. Support to financial services should be targeted on sustainable, inclusive and responsible business solutions;
- Organise forums, where business can meet with investors and lenders. Establish peer networks of investors to share knowledge.

Many SMEs, either from Finland or the country studies, complained about missing financial instruments for middle-sized investments. Some business plans have developed from bilateral to multilateral cooperation or research partnerships, but are then unable to obtain funds for expanding their business and large-scale commercialization. Business people expressed a need for grants of around EUR 10 000 for pre-investment studies and partner search. Small loans of less than EUR 1 million are needed, but not profitable. DFIs consider that projects below EUR 3 million are difficult to make profitable or self-sustaining and therefore Finnfund is proposing to develop modalities for start-up financing for developing business abroad.

**Results from using Equity Funds**

About a quarter of Finnfund’s investments in developing countries have been channelled via private equity funds. Fund investments are targeted mainly to low-income countries and especially Africa. At the end of 2014 Finnfund was a participant in 40 private equity funds with a total of about EUR 80 million, an average of some EUR 2 million per fund.

According to Finnfund development financing institutions have used a great deal of resources to assess whether they could create feasible and successful examples of how to invest in Africa through funds registered in the target countries. In practice however, the use of funds registered in target countries continues to be impossible or contains risks a responsible investor cannot take. Finnfund does however note that that in the last few years the companies of even the poorest countries have been increasingly interested in international capital. This is due to economic reforms, fast economic growth and the liquidity of the international capital markets. In line with this Finnfund has, along with many other development financing institutions, reduced the share of investments into funds.

**Limitations to Effectiveness**

More capital could boost Finnfund’s impact. With more funds, however, come more responsibility and more risk. Significantly more staff would be needed. Finnish NGOs interviewed expressed the concern that with increase of growth and profit expectations environmental, human rights and tax responsibilities may be compromised. If Finnfund would transfer profit back to the Government General Budget, these amounts would reduce Finnish ODA accordingly.

**Conclusions**

- Finnfund’s operations have contributed significantly to achieving results of the AFT-AP results framework;
- Cooperation within EDFI and co-investing of funds together with larger DFIs/IFIs can leverage resources and boost results;
• Finnfund is relatively small among the DFIs, but well respected for its technical expertise in forestry, IT and renewable energy. With increased capital, Finnfund would become able to lead consortia or go alone for larger investment projects, but also has to manage more risks;
  - Investments are generally viable (rate of return), but there are some notable exceptions. There have been write-offs in more than 10 investments in Finnfund’s portfolio, notably three cases in Tanzania, all due to low sales causing serious liquidity problems to the investee companies.

### 4 Impact

#### Summarised Development Impact

At the end of 2014, according to the latest FF Annual Report (Finnfund 2014), companies financed by Finnfund directly employed some 22,800 people, about 30% of them women (7,100). Various taxes and charges paid by companies financed directly and indirectly by Finnfund totalled about EUR 434 million in 2014. Most of these were paid by investees of the private equity funds in which Finnfund has invested in Africa. The Development Impact as detailed by FF is as follows.

**Figure 8: Finnfund Development Impact Reporting for 2014**

<table>
<thead>
<tr>
<th>Development Impact Reporting Figures as of December 31st 2014</th>
<th>Productive companies</th>
<th>Infrastructure projects</th>
<th>Private equity funds</th>
<th>Financial institutions</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of projects from which the data was available</td>
<td>32</td>
<td>10</td>
<td>29</td>
<td>9</td>
<td>80</td>
</tr>
<tr>
<td>Total number of projects in portfolio as per 31.12.2014</td>
<td>43</td>
<td>15</td>
<td>39</td>
<td>14</td>
<td>111</td>
</tr>
<tr>
<td>Total employment</td>
<td>13,717</td>
<td>356,25</td>
<td>358</td>
<td>10,435</td>
<td>24,866</td>
</tr>
<tr>
<td>Number of women employed</td>
<td>3,657</td>
<td>74</td>
<td>127</td>
<td>4,749</td>
<td>8,608</td>
</tr>
<tr>
<td>Number of indirectly created and sustained jobs</td>
<td>21,998</td>
<td>961</td>
<td>55,263</td>
<td>33,487</td>
<td>111,709</td>
</tr>
<tr>
<td>Number of indirect jobs occupied by women</td>
<td>11,986</td>
<td>86</td>
<td>13,786</td>
<td>5,501</td>
<td>31,359</td>
</tr>
<tr>
<td>Total contribution to government revenues in 2014 (million EUR)</td>
<td>70.3</td>
<td>13.7</td>
<td>149.1</td>
<td>44.2</td>
<td>277.3</td>
</tr>
<tr>
<td>Total net foreign currency effect in 2014 (million EUR)</td>
<td>-20.6</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-20.6</td>
</tr>
<tr>
<td>Value of domestic purchases (million EUR)</td>
<td>378.7</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>378.7</td>
</tr>
<tr>
<td>Number of farmers reached</td>
<td>13,476.0</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>13,476.0</td>
</tr>
<tr>
<td>Energy delivered to offtaker(s), GWh / Annun</td>
<td>-</td>
<td>409.2</td>
<td>-</td>
<td>-</td>
<td>409.2</td>
</tr>
<tr>
<td>Number of housing loans</td>
<td>-</td>
<td>-</td>
<td>0.0</td>
<td>4,334.0</td>
<td>4,334.0</td>
</tr>
<tr>
<td>Amount of housing loans (million EUR)</td>
<td>-</td>
<td>-</td>
<td>0.0</td>
<td>299.2</td>
<td>299.2</td>
</tr>
<tr>
<td>Number of Microfinance loans</td>
<td>-</td>
<td>-</td>
<td>2,352,750.0</td>
<td>35,259.0</td>
<td>2,388,009.0</td>
</tr>
<tr>
<td>Amount of Microfinance loans (million EUR)</td>
<td>-</td>
<td>-</td>
<td>929.2</td>
<td>10.8</td>
<td>940.0</td>
</tr>
<tr>
<td>Number of SME loans</td>
<td>-</td>
<td>-</td>
<td>42,272.0</td>
<td>110,585.7</td>
<td>152,857.7</td>
</tr>
<tr>
<td>Amount of SME loans (million EUR)</td>
<td>-</td>
<td>-</td>
<td>30.5</td>
<td>2,756.3</td>
<td>2,786.8</td>
</tr>
</tbody>
</table>
Finnfund staff prepares an annual report to the governing bodies as internal information on investment activities. It includes a narrative on “Development Impact” and in few cases also “Environmental Impact” of each investment. The style and information included varies among the investment managers who write these texts. This information gives an interesting insight on the perception of impact by Finnfund investment managers. In 100 of the 115 cases investment managers report employment effects of any size; only 50 cases mention women’s employment explicitly. Tax and other public revenue payments were mentioned in 47 cases, sometimes with the amounts. Other justification for the investment are that the investee has an Environmental & Social Management System established (33 cases, mostly funds), has or seeks a Quality Management Certificate (ISO 9000, 14000 or 18000 series, FSC) (14 cases) or applies CSR standards (9 cases). Other positive development effects mentioned under this header relate to climate and energy, environment, technology transfer, and access to finance. SME finance, business opportunities and skills training are mentioned in a limited number of cases.

Figure 9: Finnfund Development Impact reported, Number of cases.

A small selection of cases was selected for impact screening during the country studies and in desk-review. Two forestry investments in Tanzania had synergies for Finnish bilateral cooperation through cooperation with the projects. This success is based on a long-standing Finnish forestry experience in Tanzania and considerable amounts invested by Finnfund. Cooperation of project staff in the field was supported by the Embassy.

**Figure 10: Development Impacts reported by FF for selected investments**

<table>
<thead>
<tr>
<th>Investment</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Timber Plantation Company (Tanzania)</strong></td>
<td>Employment opportunities to 650 people in its operations. Plantations are managed according to globally recognized Management systems (e.g. FSC, ISO 14001), which bring technical knowhow of good forest management to the local community. Company is involved in several activities which bring benefits to the local community, these include teak out-grower programme, beekeeping programmes and also contributions to local villages’ Social Fund which e.g. supports infrastructure development</td>
</tr>
<tr>
<td><strong>Forest Plantation and Processing Company (Tanzania)</strong></td>
<td>Some 460 employees (permanent and seasonal) and it is assumed that the Company’s operations provide daily income to 5,550 people. The Company works closely with the communities in its operating area; the communities have better access to water, better infrastructure and they can participate to the Company’s out-grower programmes, where technical assistance is provided for tree growing.</td>
</tr>
<tr>
<td><strong>Transportation Company (Tanzania)</strong></td>
<td>Airline services to rural areas where mining and gas industries are emerging support businesses. Large scale operations and cargo capacity to rural destinations. 130 new jobs have been created to ground handling and 169 in the airline.</td>
</tr>
<tr>
<td><strong>Pump Manufacturing Company (Tanzania)</strong></td>
<td>The hand pumps manufactured by the company provide clean water to people in several African countries.</td>
</tr>
<tr>
<td><strong>Enterprise Fund (Vietnam)</strong></td>
<td>Considerable contributions to employment generation, GDP growth and increased tax revenues.</td>
</tr>
<tr>
<td><strong>Enterprise Fund (Vietnam)</strong></td>
<td>Portfolio companies employed 2 092 people of which 728 were women. The management Company had 4 employees of which 3 were women. Taxes and other government revenue paid in 2014 by the companies amounted to about EUR 1.89 million.</td>
</tr>
</tbody>
</table>

Source: Finnfund 2015b. Evaluator’s interviews

**Impact on tax payments**

Increased tax revenues from the private sector are an important step in the Theory of Change for Finnish AFT. Tax evasion has a negative potential on this impact. In general, companies financed by Finnfund are major direct or indirect taxpayers in the countries in which they operate. In 2013, for example, companies financed directly or indirectly by Finnfund reported payments of taxes and similar levies totalling about EUR 434 million. Finnfund is opposed to tax evasion, corruption and money laundering in investee countries and domiciles. In 2013 companies financed by Finnfund’s private equity funds paid a total of approximately EUR 300 million euros in taxes and similar charges in investee countries. This is more than paid by compan-

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3 Due to confidentiality issues, the table only provides basic information. Potential harmful information for companies involved, is not included in this table.
ancies financed via other instruments (EUR 133 million). In its annual report Finnfund states that it does not participate in the funds listed in the OECD Global Forum’s updated list (Finnfund 2015a). However, in total Finnfund has invested in at least 30 funds or companies that are based in tax havens. Finnfund notes that the funds investing in Africa are usually registered in Mauritius or Luxembourg. Finnfund, however, has announced that it will not make further use of funds for investments that are based in Luxembourg. The countries of registration are conduits, channelling investments from many different places to investee countries. Funds do not pay taxes in their country of registration, but investors and investees pay taxes in their home countries.

More interesting in terms of tax responsibility and transparency than the taxes actually paid by Finnfund, is how Finnfund reports on the development impacts of the taxes paid by companies it has invested in (indirect tax footprint). NGOs fear that these ownership guidelines fall short on ending tax haven investments if they rely solely on the current OECD framework for tackling tax evasion. The Finnish NGO platform Kepa has shown that in 2011 nearly all of Finnfund’s fund investments were made to funds that were located in tax havens.

Finnfund is responsive to OECD criteria and to the criticism voiced by civil society organisation. Already in 2014, Finnfund added funding to the Interact Climate Change Facility (ICCF) under the condition of the transfer of the company’s domicile away from Luxembourg to meet OECD criteria on tax transparency. Furthermore, as from 2015 onwards, Finnfund will publish taxes by country.

Finnfund does not compile a country specific tax reports and does not define its tax planning principles, since according to Finnfund, it does not have an incentive to practice tax planning nor to reduce the amount of taxes they pay. In accordance with the Income Tax Act of Finland, Finnfund is exempted from income tax i.e. it does not pay tax on its profit to the Finnish State. Finnfund, also in accordance with the Finnfund Act does not generate profit to its shareholders, but rather is to use its entire profit on implementing its development policy special purpose. On the other hand the company aims to act self-sustainably and thus tax planning can be connected to Finnfund’s investment funds and target companies.

Impact on Human Rights

Human rights problems have been identified in several of Finnfund’s target countries. This is a negative trend in some countries and not caused by Finnfund’s investments themselves. However, the investments profit from the situation and are criticized for not having enough positive effect under the rights-based approach.

For example, together with the Dutch Development Finance Institution FMO, Finnfund finances the Agua Zarca hydropower project in Honduras. Berta Cáceres, leader of the Council of Indigenous Peoples of Honduras (COPINH) that opposes the Agua Zarca hydroelectric plant project, was murdered in March 2016. FMO and Finnfund decided not make disbursements to the project for now and FMO even froze all its investments in Honduras. Finnfund sees the causes to be in external governance problems and not in the investment project itself.

In Tanzania there is evidence of increasing conflict over land. The G8-Tanzania Land Transparency Partnership initiative from June 2013 acknowledges the need for a more transparent, efficient and better-resourced land sector. This evaluation did not go into details of the land issues, but a clear finding is that FT is involved in the conflict over them. The concern is that smallholder farmers could be pushed off their land to make way for large-scale, business-backed programmes. With increasing focus on formalization of land ownership and a drive to increase foreign direct investments, tensions over land and

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4 To protect confidentiality of stakeholders involved in the examples below, only publicly available information was used in this section.
disputed land were intensifying. From community, government to investors, a large number of stakeholders have expressed strong concern over the current unstable situation. Finfund’s investment in a forest company was heavily disputed by farmer’s associations in Tanzania that claimed they had been moved from their traditional land. FF has no record of this, but European NGOs published the case as one of several land grabbing scandals in 2015. Finnfund sees no evidence for these accusations and it claims that tree growers living in the areas of the company and who are important stakeholders in the plantation expressed a high degree of satisfaction. These stakeholders indicated that the investment is strengthening the community’s development and that it is reducing some environmental risks, such as fires. Although the plantations cannot further expand in the current region, there is a possibility for extending the project to another zone.

Finnfund follows the international responsibility standards when assessing environment and social aspects. The diligence considers all legal aspects, including indigenous rights. However, if conflictive cases come up with socio-political aspects, this is not a sufficient base for argumentation. Even if NGOs and lawyers appear long time after the project appraisal and publish their protest, Finnfund must take this into consideration. As the Agua Zarca case in Honduras showed recently, the issues are beyond the actual dam project and cannot be solved within the investment case. Finnfund’s instruments are limited when dealing with complexity. Indigenous communities and their use of natural resources have cultural and spiritual dimensions far beyond the scope of development finance.

In its work, the respect for human rights as enshrined in internationally recognised human rights standards is recognised by Finnfund. Generally, one of the conditions for receiving financing from Finnfund is that the investee company must, by way of agreement, undertake to comply with the core labour standards of the International Labour Organization (ILO) as well as the Performance Standards on Environmental and Social Sustainability of the International Finance Corporation (IFC), a member of the World Bank Group. Human rights issues are addressed extensively by both standards.

An examination of human rights aspects is part of Finnfund’s financing process. A human rights assessment is carried out for each project alongside the environmental and social assessment. Assessments follow IFC and EDFI procedures. The human rights perspective is embedded in Finnfund’s Environmental and Social Policy, and it also endorses the Principles for Responsible Finance of the European Development Finance Institutions (EDFI), of which it is a member. In human rights questions Finnfund’s Environmental and Social Policy tracks the UN Global Compact, the UN Guiding Principles on Business and Human Rights and the ILO’s fundamental principles. Projects financed by Finnfund comply with the environmental and social Performance Standards of the IFC (International Finance Corporation). These performance standards incorporate international human rights principles.

NGOs monitor and assess the human rights impacts of companies in order to ensure that the human rights viewpoint is further strengthened in company activities. The aim is to bring together companies, NGOs and other central actors around the same table, in order to negotiate and assess, the specific and significant risks e.g. for the forestry, retail and textile sectors. Additionally it will be determined what level of risk management and abiding of the infringement principle is sufficient.

The IFC and the EDFI group track international guidelines in keeping their standards and tools for human rights compliance under continuous review. The IFC’s Performance Standards were last revised in 2012 to reflect UN Guiding Principles on Business and Human Rights. In the same way Finnfund steadily develops its own procedures and tools. These include the World Bank Group’s Environmental and Social Policies; IFC Performance Standards; WBG Environmental, Health, and Safety Guidelines; the principles of UN Global Compact, UNEP-FI and the UN Guiding Principles on Business and Human Rights; the Equator Principles and the Harmonized Environmental and Social Requirements agreed upon by EDFI.
Conclusions

- The development impact of Finnfund is considerable in terms of employment creation, fiscal income and microfinance provision;
- Even without harmonizing with AFT, Finnfund is constantly investing in business and economic infrastructure, to generate jobs and tax income in LDCs. The projects and funds are successful on these indicators with few exceptions;
- Finnfund’s policy is in line with the Human Rights Based Approach in development cooperation of Finland’s Ministry for Foreign Affairs. Its procedures and tools are vetted by the Ministry, which is responsible for the ownership steering of Finnfund. However, human rights and land ownership issues are related to some investments or come up during the operations;
- Some of the investment objects also have produced negative development impacts in the form of local communities that were not included in stakeholder engagement and were not hear, claiming to be have been negatively impacted by investment projects;
- The indirect tax footprint of Finnfund in developing countries is unclear and defined too widely. Although this not a critique only valid for Finnfund, but applies to the financial sector as whole, developing country governments lose a part of their possible tax-incomes because financial institutions operate from tax havens and this is also the case for a number of the equity funds supported by Finnfund;
- Discussion is still necessary; in order provide information from a human rights perspective for better risk management in companies and for companies to gain information on the parameters/conditions for business activities;
- In addition to these, an increase in dialogue between businesses and civil society is needed. Companies need information on human rights aspects to support their risk management work, and it is beneficial for civil society to receive information on the preconditions and opportunities related to business.

5 Efficiency

Financial profitability

The profitability of Finnfund is assessed primarily on the Return on Equity. Additionally, impairment loss entries, the development of the value of equity instruments, and level of debt are also assessed.

Finnfund strives to increase operational efficiency and to improve effectiveness by enhancing its internal processes and procedures in project preparation and monitoring as well as in support functions. To facilitate long-term planning, a financial model was created for Finnfund, in order to enable future portfolio development and profitability simulation by simply changing some default assumptions. This model was used in the preparation of the budget for 2015.

Figure 11: Finnfund Key financial figures, 2012-2014 (EUR million)

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial income, EUR million</td>
<td>23.5</td>
<td>18.5</td>
<td>20.0</td>
</tr>
<tr>
<td>Net profit, EUR million</td>
<td>2.4</td>
<td>2.7</td>
<td>1.2</td>
</tr>
<tr>
<td>Return on equity, %</td>
<td>1.1</td>
<td>1.3</td>
<td>0.6</td>
</tr>
<tr>
<td>Equity ratio, %</td>
<td>74.3</td>
<td>69.2</td>
<td>64.8</td>
</tr>
</tbody>
</table>

The operational result is shown in the table below. In 2014, Finnfund made a profit of approximately EUR 2.4 million. The result fell slightly short of last year, but clearly exceeded budget. Income from financing activities stood at EUR 11.1 million and the result before value adjustment items, sales and taxes was EUR 4.3 million (Finnfund 2015a).

Figure 12: Finnfund Operational result 2013-2014

<table>
<thead>
<tr>
<th>EUR 1,000</th>
<th>2014</th>
<th>2013</th>
<th>Change EUR</th>
<th>Change %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial income</td>
<td>12,929</td>
<td>13,558</td>
<td>-629</td>
<td>-4.6</td>
</tr>
<tr>
<td>Financial expenses</td>
<td>-1,802</td>
<td>-1,643</td>
<td>-159</td>
<td>9.7</td>
</tr>
<tr>
<td>Income from financing activities</td>
<td>11,127</td>
<td>11,915</td>
<td>-788</td>
<td>-6.6</td>
</tr>
<tr>
<td>Other operating income</td>
<td>1,612</td>
<td>1,558</td>
<td>54</td>
<td>3.5</td>
</tr>
<tr>
<td>Administrative expenses, depreciation and other expenses</td>
<td>-8,419</td>
<td>-7,797</td>
<td>-622</td>
<td>8.0</td>
</tr>
<tr>
<td>Result before value adjustment items, sales and taxes</td>
<td>4,320</td>
<td>5,676</td>
<td>-1,356</td>
<td>-23.9</td>
</tr>
<tr>
<td>Value adjustment items and sales</td>
<td>-1,877</td>
<td>-2,945</td>
<td>1,068</td>
<td>-36.3</td>
</tr>
<tr>
<td>Income taxes</td>
<td>-35</td>
<td>-29</td>
<td>-6</td>
<td>20.7</td>
</tr>
<tr>
<td>Net profit</td>
<td>2,408</td>
<td>2,702</td>
<td>-294</td>
<td>-10.9</td>
</tr>
</tbody>
</table>

Efficiency in some investment cases selected for further analysis in this case study, was influenced by the following factors.

Figure 14: Difficulties occurred in selected Finnfund investments

<table>
<thead>
<tr>
<th>Investee</th>
<th>Difficulties</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forest Planation and Processing Company (Tanzania)</td>
<td>Movements of INR (depreciation) and more recently competition from South &amp; Central American trees have put a lot of pressure on the pricing of the products. The investment climate for land-based investments and commercial forestry is deteriorating. Business is suffering from increasing bureaucracy. Access by ferry is blocked for weeks.</td>
</tr>
<tr>
<td>Forest Planation and Processing Company (Tanzania)</td>
<td>Criticized for land grabbing by some local farmers associations supported by large European NGOs.</td>
</tr>
<tr>
<td>Transportation Company (Tanzania)</td>
<td>Introduction of low-cost competition. Bad management. Has not been able to service its debt, needs to restructure the financial obligations. Despite listing, there is almost no trading on the share.</td>
</tr>
<tr>
<td>Pump Manufacturing Company (Tanzania)</td>
<td>Suffered from corruption scandal in the Tanzanian government’s water branch. Taxes and finance charges took the net income to a loss. The net foreign currency effect is slightly negative due to imports of pump parts from Finland.</td>
</tr>
<tr>
<td>Enterprise Fund (Vietnam)</td>
<td>For a pioneer Fund in a new and difficult market the performance was initially quite encouraging but eventually not good enough to achieve satisfactory investor returns. Legal dispute concerning which may take considerable time. Fully written off in Finnfund’s accounts.</td>
</tr>
<tr>
<td>Enterprise Fund (Vietnam)</td>
<td>Recruitment of good quality local staff proved time consuming and challenging, as well as identifying feasible deals and carrying out due diligence work efficiently. Two key expatriate managers also left during the first years of operations, and this combined with the slow pace of implementation eroded investor confidence.</td>
</tr>
</tbody>
</table>
According some stakeholders, Finnfund does not have enough capacity to manage or restructure businesses in trouble. Others were satisfied with the understanding and flexibility Finnfund showed. Most businesses interviewed commented on the strict and formal diligence process during the initial assessment, which involved more items than with commercial banks. Still all companies interviewed accepted the assessment process as necessary. Companies, which had two or more projects with FF confirmed that the procedures became more easy and efficient over the years, which might reflect their own learning during the process.

**Steering structure**

The formal guiding mechanism has proven to not be efficient in the case of AFT. In these guidance notes for Finnfund, MFA did not mention AFT explicitly. Finnfund as a supposed key instrument was aware of the AFT-AP, but it did not recognize the plan as a guidance mechanism. It did however report on the main indicators of the AFT-AP results-framework in 2014. The Action Plan was not formally communicated to Finnfund through the guidance notes, thus it had no influence on the activities and attribution of results to the AFT-AP, according to Finnfund, is not valid. The causes for inefficient steering root from the ownership structure and formal steering instruments and mechanisms that exist to align Finnfund with Finnish development policies in general and AFT specifically. Another cause is related to difficulties inside the MFA to harmonize and align its policies between different departments. On the other hand, the evaluators observed that Finnfund could have been more pro-active and open in communication with MFA and seeking cooperation with stakeholders within the Ministry and embassies in contributing to AFT-AP priorities, particularly as they are in line with the Finnfund mandate.

According to Finnfund managers, cooperation with MFA is continuous and not limited to the formal steering process. Finnfund develops new models for promoting development objectives with the private sector in collaboration with MFA. Apart from expanding the business partnership programme Finnpartnership, this cooperation comprised of special risk finance for pilot projects that entail significant development impacts. It also included forms of cooperation in which Finnfund supports the private investments by companies and the MFA supports related public sector operations or investments, as observed in some cases.

**Coordination, Cooperation and Coherence**

In many developing countries, Finnfund either has long experience or can help its clients by tapping into networks of partners, including other development financiers. Finnfund is a member of the Team Finland network that promotes Finland’s external economic relations and country brand, the internationalisation of Finnish companies, as well as foreign investment directed at Finland. More than 70 local teams around the world handle its activities abroad. The core of the Team Finland network consists of the Ministry of Employment and the Economy, the Ministry for Foreign Affairs and the Ministry of Education and Culture, as well as the publicly funded organizations and overseas networks whose performance they oversee. The Team Finland network is steered by the Government.

Coordination of Finnfund with Finnish bilateral cooperation, however, was limited to some cases where the Embassies had a connecting role. Finnpartnership remains a side-activity, which rarely links to investment projects for Finnfund. MFA leaves private sector relations to Finnfund, which itself has no strong role in policy dialogue.

Finnfund seeks to collaborate with other European development finance institutions and, where appropriate, introduce practices and tools developed by sister organisations. Harmonised practices and an effective division of labour are of particular importance in projects that involve several development finance institutions.
Finnfund cooperates with European and multinational development finance institutions (EDFIs and IFIs) as well as other financiers (banks). Finnfund is a member of EDFI, the Association of 15 European Development Finance Institutions. Alignment with other DFIs is good and Finnfund “almost never walks alone”. Most “Club Deals” are led by IFC, DEG and FMO. Especially in projects characterized by large scale and/or significant risks, it may be advisable to share risks and the burden of project preparation and monitoring. Natural partners for this are other public development financiers that also share similar objectives and business principles.

In October 2014, Finnfund signed IFC’s Master Cooperation Agreement (MCA), which standardizes steps that lenders take when co-financing projects with IFC. This streamlined approach intends to save time and money for lenders and borrowers to provide much-needed financing to private companies in emerging markets and help boost growth and jobs.

**Policies and Procedures**

Finnfund’s Policy is in line with the Development Programme Policy (2012) and is tightly linked with the need to promote, monitor and evaluate developmental impacts of the projects financed, to promote sound corporate governance and to fight corruption and money laundering. Relevant procedures have been developed at Finnfund to cover these aspects.

The Policy covers environmental and social impacts, benefits, opportunities and risks, both directly and indirectly associated with the investments. In addressing these, Finnfund’s key considerations include: resource efficiency and pollution prevention, biodiversity conservation and sustainable use of natural resources, labour rights and working conditions, community health, safety and security, land ownership and acquisition, resettlement, indigenous peoples and cultural heritage. A number of crosscutting topics such as climate change, gender, human rights, and water, are also embedded in Finnfund’s considerations.

Projects are assessed as a whole and over their whole life cycle including design and planning, construction, operations, expansions and decommissioning or closure and for their short-term, long-term, and cumulative contexts. The assessment takes into account the responsible management of environmental and social issues and good governance practices within the project-company, as well as participation and consultation of stakeholders (external and internal).

However, the main diligence is done before the investment is made. Some businesses complained about the time and resources spent on the assessments.

Some stakeholders pointed out that FF has little capacity to manage or restructure the investments during the operational phase, especially if problems occur. Analysis of the status do reports show 24 cases where Finnfund had to write off the investment partially or totally from its accounts. The status reports provide details on: market shifts, shareholder disputes and complicated legal cases. In individual cases, management failures, fraud and corruption are mentioned as reasons for difficulties. Part of the problems root in deficient business plans. Finnfund reaction to defaulted investments consists of legal measures or write-offs. If Finnfund’s position in the investee company allowed it, FF was able to successfully manage a turn-around, in many cases, as Finnfund confirms.

Finnfund’s financing policy is well documented. The Development Effect Assessment Tool (DEAT) is an essential part of Finnfund’s system for analysing and evaluating the outputs/outcomes of its portfolio projects in terms of developmental effectiveness. The purpose of the DEAT is to undertake an ex ante assessment of the expected development effects of the given project while undergoing due diligence. The tool is specifically developed for the organizational needs of Finnfund, and the information gathered serves as a baseline information for ex post assessment of development effectiveness. The Environmental and Social Policy was documented into an environmental handbook, which provides information.
supplementary to the existing financing process description. To facilitate long-term planning, a financial model was created for Finnfund, in order to enable future portfolio development and profitability simulation by simply changing some default assumptions.

The impact on development is assessed by examining the significance of the project to the company receiving the funding and evaluating its relevance to stakeholders, the environment and the surrounding society. Projects are assessed as a whole and over their whole life cycle including design and planning, construction, operations, expansions and decommissioning or closure and for their short-term, long-term, and cumulative contexts. The main assessment effort, however, is carried out up-front before the investment decision of the Board. Finnfund follows the investments through their financial statements, environmental reports and development impact reports at least annually, in several cases even more often. All the investments are risk classified at least once a year.

The evaluators have found proof of reduction of efficiency in the selected investment cases studied in the country studies, which due to confidentiality issues cannot be reported in this report.

According the some stakeholders, Finnfund does have enough capacity to manage or restructure businesses in trouble. Others were satisfied with the understanding and flexibility Finnfund showed. Most business interviewed commented on the strict and formal diligence process during the initial assessment, which involves more items than with commercial banks. Still all companies interviewed accepted the assessment process as necessary; while the companies that rejected this process did not become partners and were not interviewed. Companies, which had two or more projects with FF confirmed that the procedures became more easy and efficient over the years, which might reflect their own learning.

**Finnish Private Sector views on efficiency of Finnfund**

Overall, companies seem to be highly satisfied with services provided by Finnfund to its investees. In asked to rate the DFI in terms of overall satisfaction on a scale of 1–10, Finnfund scores a high 8.8. One respondent even found the institution the most effective and efficient of the Team Finland instruments. In asking for recommendations to improve the institution, companies indicated a need to take more risk and to reduce unnecessary procedures and rules.

**Figure 13: Experiences with Finnfund Procedures and Services**

![Diagram showing experiences with Finnfund procedures and services.](source)
The answers shown in the following two figures were given in a 5-point scale. As shown in the figure above, companies find that Finnfund carries out extensive due diligence prior to investments and see that they monitor all of their investments closely. Respondents found that Finnfund takes social and environmental issues seriously. Interestingly Finnfund scores slightly less in relation to the statement on the returns on investment. This however would be in line with the role of Finnfund as a DFI, with obligations and interests that differ from other types of financing bodies. Companies seem to find the procedures of Finnfund fairly straightforward and strongly agree that Finnfund provides quality support and assistance (see figure below). Interestingly, some companies indicated that investments would likely have also been carried out without the involvement of Finnfund.

**Figure 14: Opinions on Policy and Procedures**

![Image of bar chart](image_url)

Source: Finnfund survey, February-March 2016

In their familiarity of other instruments and organisations, not surprisingly Finnfund scores the highest followed by Tekes and Finnvera. The Concessional Credit and BEAM instruments receive low scores, but this is likely due to BEAM being a relatively new instrument and the fact that the concessional credit instrument has not been use in the last years, although is now emerging in a revised manner.
Interestingly the survey shows that 50% of respondents had also been supported by Finnpartnership in their activities in developing countries. It was not specified which type of support was received, however this could indicate that some Finnpartnership projects do in fact feed into Finnfund investments. 81% of respondents found Finnfund the most useful and suitable instrument, followed by Finnvera (31.8%). Also Embassies in developing countries were found to be useful in their support to companies by some of the respondents (24%). They were found to be helpful in understanding the local context and providing the necessary networks e.g. with local Ministries. Finnpro on the other hand was seen as the least useful instrument by 40% of respondents.

**Efficiency of communication**

The recent announcement of increase in capital of Finnfund while there was a simultaneous significant cut in the development aid budget channelled through NGOs resulted in heavy criticism much of which was targeted directly at Finnfund. This hampered possibilities for cooperation between the DFI and NGOs through new partnership and rather increased the divide between the two.

Under pressure from public debates about its performance, Finnfund closed to the public instead of showing utmost transparency. The Managing Director is responsible for Finnfund’s stakeholder communication and interaction in cooperation with the company’s management, the Senior Adviser and the Communications Coordinator. To external stakeholder Finnfund is not accessible and transparent.

Finnfund has avoided communicating in public about this matter, leaving the image of a un-transparent institution. While at the same time the Government proposes significant cuts to funding of, amongst others, development projects and awareness raising activities of NGOs, Finnfund became the target of broad criticism. For the first time in 30 years, Finnfund is under pressure to defend development finance in public. Finnfund was not prepared to deliver crisis communication in the public debate.
Finnfund reporting and communication can affect the sustainability. Several NGOs confirmed difficulties to access information from Finnfund, the evaluators had a similar experience. Finnfund management put client confidentiality first, and then the limitations set by the regulatory framework, before public access to information. This closed attitude can create the image of Finnfund having something to hide. Although the information is available and all risks seem to be well assessed, the public information needs to be available.

Conclusions

- Steering of Finnfund by the MFA is not efficient. FF could have been more proactive in suggesting policy decision to the MFA;
- Finnfund is efficiently organized and exchanges knowledge among the DFIs;
- Procedures are well updated according to the development policy objectives;
- External communication of Finnfund is weak in times of conflict as well as for policy dialogue.

6 Sustainability

Financial Sustainability

Finnfund is a long-term investor that shares the country and political risks of the investment. Financial sustainability is the main concern of management. According to the Finnfund Act 2 § the purpose of Finnfund is not to accrue profit for its shareholders. However, in accordance with state ownership policy it needs to be self-sustainable i.e it should be able to cover all costs including risks with the profits made from its activities.

This also means that in the long-term, Finnfund will need to be able to finance all its activities from funds accrued from investments without necessary capital increases/injections. If capital increases/injections are made the objective is to expand activities. Also the decision-in-principle of the government on corporate governance of the state-owned enterprises (3.11.2011) defines cost-efficiency and profitability as an objective of corporate governance. According to the decision, the objective of both special-purpose companies and those working commercially is to ensure a socially and commercially sustainable result.

Finnfund receives capital from the General Public Budget. Financial performance of the portfolio is good. Financial indicators for 2014 show an equity ratio of 74 % and a return on equity of 1.1 % p.a.

Finnfund had a balance of EUR 317 million in 2014, whereas EUR 235 million was equity. Due to Finnfund’s equity limitations, capital investments must be made cautiously and focus in project preparation will remain in investments in the form of loans. Most of the financing decisions in 2014 and 2015 were for investment loans, which accounted for three quarters of the value of decisions in euros. According the FF managers, this trend was intentional and reflects the current situation, in which the amount of Finnfund’s equity is beginning to limit its opportunities to make equity investments. According to Finnfund’s risk management principles, equity investments must be covered from Finnfund’s shareholders’ equity.

To uphold liquidity, Finnfund requested a EUR 10 million appropriation from central government budget for 2015 for an increase in the share capital of Finnfund. For the 2016 budget, the Government allocated EUR 140 million in of the state budget article “Development cooperation financial investments”, of which 130 million were earmarked for a raise of Finnfund’s capital. Industry representatives interviewed expressed favour for a significant capital increase, in order to make Finnfund less dependent
on joint funding with other DFIs. The Federation of Finnish Industries published a statement in this direction.

The decision, however, is dominated by the Government’s spending limits against public indebtedness discussion for the Fiscal Plan for 2017−2020. The Minister for Foreign Trade and Development expressed the view that capital increase to Finnfund would not increase Finland’s budget deficit. There is an ongoing discussion if and how the move will affect the national accounts. Finnfund states that this discussion is beyond its reach. Finnfund confirmed that at the time of this evaluation, the Government did not yet disburse the extra funds to Finnfund and that the receipt of this capital increase in 2016 is the priority of Finnfund over any other form of financing.

**Environmental and Social Sustainability**

Finnfund’s Environmental and Social Policy incorporates environmental and social considerations into all of Finnfund’s activities in a crosscutting way for all potential and actual investments in all target countries, activities and sectors, from assessment to decision making, management, monitoring and evaluation. It stems from Finnfund’s strategy and from good international practices and principles as well as the cooperation of development financing institutions at global and European levels in adopting and promoting environmentally and socially responsible principles for development financing. Mitigation of or adaptation to climate change is a key objective for many of the projects. Responsible forestry can also curb climate change, promote biodiversity and preserve natural resources.

The screening procedures for investments include social and environmental safeguards. However, as mentioned some stakeholders still raise land conflicts, human rights and tax evasion issues.

### 7 Recommendations

1. **MFA** is recommended to use the results of this case study as a pre-study for a more comprehensive evaluation of Finnfund, addressing issues of relevance, effectiveness, efficiency, impact and sustainability of Finnfund’s operations and investments and its contribution to the new Finnish Development Policy of 2016. The ToR for this evaluation should be agreed upon between the owners of Finnfund (State, Finnvera and CFI), MFA and Finnfund;

2. **MFA** is recommended to expand the current portfolio of private sector development instruments in order to meet the needs of the private sector in both developing countries and in Finland and particularly in the SME sector to become more involved in trade and investments in developing countries;

3. **Finnfund** is recommended to intensify its co-operation with Finnish enterprises in low-income and lower-middle-income developing countries in particular. Any feasible way to lower the cost and risk for Finnish investors should be studied. Priority should be assigned to projects where Finnish know-how and competence is used to address climate change, to improve environmental conditions, and to improve the living conditions of poor people;

4. The recommendation above requires more pro-active exchange on investments opportunities and contacts by FMA and Embassies as well as Finnfund. The corporate guidance notes of MFA to Finnfund could contain more concrete instructions to Finnfund to this purpose;

5. **Finnfund** should increase the amount and transparency of information on investments made through the funds supported by it. This is crucial for improving the possibilities to evaluate the development effects of these investments;
6. Finnfund should also increase the transparency of its information provision of its direct investments by requiring investee-companies to present their annual accounts on a country-by-country and project-by-project basis, which would enable all stakeholders to assess the development effects;

7. Finnfund should strengthen its assessment procedures, but also continuous monitoring over time, to ensure that all its investments fully respect the rights of those affected, in particular the rights of ethnic minorities. Plantation forests should be established only on non-productive agricultural land and forest projects should strive for FSC-certification as soon as possible. Hydro-power projects require extra efforts in assessment and continuous monitoring of developments in human rights situation;

8. Finnfund is recommended to follow current trends in improving transparency in the banking sector. Finnfund should actively share lessons and initiate open dialogues and media content and the private sector’s role in development. A transparency portal can be useful to provide all information, which is legally possible. Finnfund should consider opening a direct channel to its compliance manager for public claims regarding its operations.
1 Introduction

The Ministry of Foreign Affairs (MFA) of Finland launched its business partnership programme, Finnpartnership, in June 2006. Although this decision was based on the same trends and developments in the international development arena that motivated MFA to develop its Aid for Trade Action Plans, the Finnpartnership programme preceded the launching of the AFT action plan.

MFA decided to outsource management and administration of Finnpartnership to an external partner, most likely in order to facilitate a business partnership support facility closer to the Finnish business sector itself and to avoid being managed and implemented by the Ministry itself. At the start of the Finnpartnership facility, the external tender for its management and implementation was won by the Finnish Fund for Industrial Cooperation Oy (Finnfund). The MFA has renewed the contract for implementation for the years 2007-2009 and 2010-2012, with the latter including an option for a three-year extension. This option was followed and the contract was extended until end of 2015. In July 2015 a new tender was opened for the years 2016-2018 with an additional three-year option. The tender was won by Finnfund and therefore the administration of the Finnpartnership facility remains with Finnfund also from 2016 onwards.

During the period 2007-2012, the average annual funding from MFA to Finnpartnership has been roughly EUR 2.5 million, of which the Business Partnership Support (BPS) facility to companies was roughly EUR 1-1.5 million. Running costs of the facility and costs of advisory services and matchmaking were also 1-1.5 million in that period. In 2013 and 2014 these funding levels remained more or less the same. As the funding to Finnpartnership is not specifically earmarked in the Finnish development amounts, the evaluators have no data on the overall value of the Government’s transfer to Finnpartnership.

2 Services provided by Finnpartnership

Finnpartnership’s mission is to provide support-, matching- and advisory services to Finnish private companies in starting up and developing business operations in developing countries. Companies can contact Finnpartnership experts who can provide guidance throughout the different phases of their initiatives to engage in international business relations, including requests for support in the first steps of developing such business relations. The services of Finnpartnership are provided free of charge.

Finnpartnership provides three interrelated services:

- **Business Partnership Support (BPS)** for companies that need financial support for costs related to research and start-up of business initiatives and projects in developing countries. This support can range between 30% and 70% of the total costs of the project, depending on the country of the activity and the size of the company involved. The different percentages of support for BPS projects are used to steer the BPS support towards Low and Lower-Middle Income Developing countries and to SME’s;
- **A Match Making (MM)** service to identify business partners for companies searching for international business partners for their projects. This service registers companies based in developing countries in a database. It is not a register of Finnish companies, thus the service primarily caters for Finnish companies searching for a business partner in a developing country;

- **Advisory services**: in a) planning and financial advice and b) mentoring services during project implementation.

In BPS, the eligible items for subsidy are limited to the preparation and implementation phase of projects and contain the following:

- Partner identification
- Pre-feasibility study, feasibility study
- Business plan
- Social and environmental impact assessment
- Training of employees in the developing country
- Utilizing experts in developing a specific business area of a project
- Piloting technology and solutions, and
- Vocational education and training, and support for local education.

According to EU regulations, BPS is "de minimis aid". This regulation stipulates that state subsidies to companies can be exempted from registration if they are below a certain threshold and thus are not seen to distort the market. A company can receive a maximum of EUR 200,000 of "de minimis aid" over a 3-year period. However, if the target market of the project as a whole is outside the European Economic Area (EEA), and thus does not distort competition within the EEA, a deviation from the "de minimis" regulation can be made if well justified. In such cases, the maximum amount of BPS subsidy support can be EUR 400,000 per project.

The BPS can also provide subsidies to long-term import projects, when they are considered to have commercial market potential and developmental impacts. In these projects, support is given to:

- (Vocational) training of the developing country actor
- Improvement of the working conditions, terms of employment and occupational safety of the developing country actor
- Improvement of the quality of the products
- Obtaining fair trade or a similar certification.

In the reporting of Finnpartnership, these two forms of BPS are not managed as separate categories. All BPS projects are reported under on single category.

On average 100 BPS projects are approved by Finnpartnership annually, as is shown in the figure on next page:
The Match Making (MM) Service of Finnpartnership aims to increase commercial cooperation between Finland and developing countries. The service helps companies and other economic actors both in Finland and in developing countries to seek out new cooperation opportunities. Finnpartnership channels business partnership initiatives from developing countries to companies in Finland and vice versa. The partner-search facility on the Finnpartnership Website only contains companies from developing countries. By design, the Match Making Service allows for Finnish companies to explore business opportunities abroad. The database does not cater to foreign companies that may want to identify relevant business contacts in Finland. Rather, once registered in the partner search database they can be contacted by Finnish companies. However, Finnpartnership regularly participates in international missions and organises business events (Doing Business with Finland) in developing countries, where also companies from developing countries are more actively linked with Finnish companies.

276 developing country based companies have registered in Finnpartnership’s business matching database by March 2016.

3 Monitoring and reporting on Finnpartnership’s activities

The Website of Finnpartnership provides comprehensive information on the different services provided by the facility. Apart from formats, instructions for submission of proposals and the matchmaker tool, there are also success-stories (47) on business initiatives that have started with support of Finnpartnership, since the very start of the facility in 2006. The website also contains regular newsletters. The BPS projects that are approved by Finnpartnership are also published on the website. This information refers to commitments and not to actual disbursements on BPS projects.

The website does not contain comprehensive annual reporting on the overall operations of Finnpartnership to the general public, but Finnpartnership reports comprehensively and annually to MFA in Finnish. The analysis in this section is based on the information that is contained in Finnpartnership's annual reports from 2012 to 2014 and information on the website from the period 2010-2015.
Analysis of BPS projects (2010-2015)

Finnpartnership’s annual reports of 2012, 2013 and 2014 indicate that 186, 121 and 124 BPS proposals were submitted respectively. On average 25% of the proposals is not processed or rejected (although this % was higher in 2012). The main reasons for not awarding a BPS commitment were:

- The applicant’s company’s economic status and experience was not sufficient;
- The applicants withdraw their applications;
- The development impact was too limited;
- The proposal did not have a longer-term ambition for business engagement in a developing country.

The BPS project commitments and disbursements by Finnpartnership for the approved projects in the period 2010-2015 are presented in the figure below.

**Figure 2:** Finnpartnership BPS commitments and disbursements 2010-2015 (EUR million)

![Figure 2: Finnpartnership BPS commitments and disbursements 2010-2015](chart.png)

Source: BPS Project overview prepared by Finnpartnership for evaluators (Dec 2015)

The figure above shows that in the past five years the total annual commitments of Finnpartnership to BPS projects oscillated between EUR 3.5 and 4.5 million, with the exception of 2012 when less projects and a lower total amount was approved. This is likely to be related with the fact the MFA agreement with Finnpartnership was renewed in 2012.

An important finding from the figure above is that actual disbursements of Finnpartnership to BPS project partners remain far below the committed amounts. In the top-year for disbursements (2011), the disbursements totalled 44% of the approved amounts. The percentages for 2010, 2012 and 2013 are even lower with 37%, 33% and 33% respectively.

Finnpartnership’s annual reports to MFA provide a range of factors that have contributed to the relatively low disbursements. The most frequently reported reasons for the fact that no disbursements or only partial were made are:

- The projects were not implemented, due to a decision by the applicant not to go ahead based on a variety of reasons;
- The size of the project-realisation was (significantly) lower than the original ambition expressed in the project proposals;
- Not all costs presented were eligible for funding and therefore were not reimbursed.

Disbursements in 2014 and 2015 cannot yet be compared with the other years, because BPS project partners have two years to finalise their projects and can only request disbursements at the end of the project. Therefore, a considerable part of the projects, which were granted a commitment in 2014 and 2015 were not yet closed at the end of 2015.

Other reasons for not proceeding with the final request for disbursements that were given to the evaluators during country visits, in interviews and in the survey (see also further below) are:
- Difficult and bureaucratic instrument and procedures;
- Disbursement at the end of the project, disbursements after all expenditures are realised is not seen as helpful. Applicants need funding up-front to start the activity. Others that have managed to find other sources of funding up-front no longer find the retro-active support of Finnpartnership relevant;
- Although in general support and guidance of Finnpartnership is appreciated by the applicants, they also indicate that they do not have sufficient guidance and knowledge to engage in specific countries and that relevant business contacts are missing.

In most interviews with applicant companies that had realised Finnpartnership funded BPS projects, the companies indicate that without the support of Finnpartnership they would very likely still have implemented their projects by finding funding from alternative sources.

**Geographic and sectoral spread of Finnpartnership’s BPS and Matchmaking facilities**

The main target countries of BPS Projects are presented in the figure below:

**Figure 3: geographic spread of BPS projects approved in the period 2010-2015**

Source: BPS Project overview prepared by Finnpartnership for evaluators (Dec 2015). N=584
The figure on previous page shows that in the period of 2010-2015 584 BPS projects were approved by Finnpartnership in 73 different countries. This is a very wide geographical spread. In 25 countries there was only one project, while in eight countries there were two projects and in seven countries three projects.

In 15 countries, Finnpartnership has approved ten or more projects. Among these countries BPS support is applied for most often for activities in China, India and Vietnam.

In addition to Vietnam, other Finnish development cooperation main partner countries are also represented in this figure, showing that the other two case-study countries namely Tanzania and Zambia had more than 10 BPS approvals as did the other partner countries; Nepal and Kenya. Additionally, former partner countries of Finland; Namibia and Peru are represented in this group.

Less frequent support is given in the partner countries Ethiopia (9) and Mozambique (6), while in Somalia and Afghanistan only one project in each country was approved.

This analysis shows that 70% of the total BPS project portfolio covers only 15 countries (as presented in the figure above). Within this group, seven countries in Asia make up for 67% of the projects, indicating that the Finnpartnership BPS support modality is particularly relevant for Finnish companies that want to do business in Asia and particularly in the larger economies of China, India and Vietnam.

The percentage of BPS projects in Africa is 22% and a considerable number of partner countries of Finland are among them.

In conclusion, Finnpartnership’s BPS subsidy modality is quite active in Finnish partner countries, but also in a number of countries with which Finland does not have a development cooperation relationship. This means that in some cases companies might need to realise their BPS projects without the potential support of Finnish diplomatic representation in the country and existing networks and relations that have resulted from the Finnish Government’s economic diplomacy efforts. Nonetheless it should be remembered that Finnish Embassies and Team Finland activities are of course also carried out in countries, which are not aid recipients of Finnish development cooperation and in which other types of diplomatic relations are present. Additionally, some advisory support can be received from Finnpartnership, although this is not tailored country-specifically, but is rather more generic advice on carrying out business activities in developing countries.

Finnish priority development cooperation partners are fairly well represented in the Finnpartnership BPS facility, with the exception of Somalia and Afghanistan in which the conflict significantly hampers investments in private sector and trade development. It is thus unlikely that there is a great interest for Finnish companies to explore business activities in these high-risk countries.

The Finnpartnership BPS modality is thinly spread over many countries. In over 50% of the countries represented there are three projects or less. Considering the fact that assessment of projects requires capacity within Finnpartnership and preferably also in the destination countries to allow for local checks, the wide geographic spread of the BPS facility limits efficiency and effectiveness. Isolated projects and business initiatives in countries with a limited or non-existent Finnish presence does not facilitate the creation of complementarity and synergy with other Finnish initiatives.

The wide spread is mainly caused by design. Since Finnpartnership is a demand-driven facility all requests regarding eligible countries are processed. Hence the geographic spread of Finnpartnership is a reflection of a similar spread that exists in the private sector.

The sectoral spread of the BPS projects of Finnpartnership is presented in the figure below:
The total number of sectors used by Finnpartnership in the monitoring of its activities is 27 (including the sector “other sectors”). In 14 sectors, the number of BPS projects is less than 10, which is indicative that these sectors are not a top priority for Finnish companies in exploring international business and investment opportunities in developing countries.

Among the most important sectors, some of those qualified as “Finnish added value” in the AFT action plan and the Finnish Development Policy clearly feature: ICT, Energy and Environment are in the top five of BPS projects.

ICT is by far the most important sector for Finnish business proposals to Finnpartnership’s BPS, covering 17% of the total number of BPS projects approved. The ICT sector is also one the key sectors for Finnish added value.

The service sector as well as metal and industry engineering are the two remaining sectors in the top five where the value added of Finland is not very clear: these sectors are quite generic and could expand to many other sectors.

Forestry, ood and Pper, also considered one of the key sectors of “Finnish added value”, is not among the top priority sectors in the figure above. There were only eight projects in this sector approved by Finnpartnership between 2012-2015.

The water sector, one which is a key sector in Finnish cooperation with developing countries is not considered in the sectors managed by Finnpartnership and therefore initiatives in this sector are not monitored systematically. It is certain that some initiatives that were approved under sectors such as ICT, energy, environment as well as metal and industry engineering may have activities relating to the water sector, but these initiatives are monitored under other sector headings. Therefore, attention given within the Finnish business sector (the Finnish Water Forum) to water in developing countries is not reflected in the monitoring of BPS proposals by Finnpartnership, nor in general AFT reporting, because water is also not recognised as a sector in the OECD CRS.

Educational services (on the sixth place in the figure above) should be noted, as historically Finland has been held in high international regard for its expertise in education. It is likely that some of the ICT
labelled projects are also related to the provision of educational services (e-education). This might mean that the BPS portfolio contains a considerable number of projects in education, although they are not all labelled as such. Education in Finnish development cooperation was historically considered as a value added sector, although in the new policy documents it does not feature as prominently. However, during the country visits and in interviews with stakeholders in these countries, as well as in Finland it is indicated that Finnish added value in the education-sector should not be forgotten.

In conclusion, in terms of sectors, the BPS portfolio of Finnpartnership is also quite well aligned with the priority and value-added sectors mentioned in the Finnish AFT action plan and FDP, although the BPS portfolio, being private sector demand driven is far broader.

The sector of forestry, wood and paper is weak in the BPS portfolio and in this area there are only limited possibilities for alignment and synergy with other (development) efforts of the Finnish Government (for example the EEP’s in Mekong and South East Africa) or with the investment portfolio of Finnfund that contains a relatively high number of forestry related investments (and investment funds).

The water sector is not labelled as such and therefore it is not possible to monitor initiatives in this specific sector to enable more alignment with Finnish competencies and added value in development cooperation.

**Analysis Project Summaries**

Finnpartnership prepares short projects summaries for the assessment of quality of proposals and for the purpose of decision making by Finnpartnership.

Depending on the target countries and size of applicant companies funding is provided as follows

**Table 1: Funding % Mix of Finnpartnership BPS support**

<table>
<thead>
<tr>
<th></th>
<th>Low income developing countries (LDC, LIC, LMIC)</th>
<th>Upper middle income developing countries (UMIC)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>SME’s and other small organisations</td>
<td>70%</td>
<td>50%</td>
</tr>
<tr>
<td>Large companies</td>
<td>50%</td>
<td>30%</td>
</tr>
</tbody>
</table>

*Projects in UMIC countries must have direct development impacts*

Source: BPS brochure, Finnpartnership, no date

The funding mix is developed to steer BPS investments more towards the direction of SMEs and Low Income Developing Countries.

Finnpartnership’s annual reporting and the evaluator’s interviews and survey (see section 6) show that this funding matrix has been relevant for the target companies using the BPS facility as it is largely composed of SMEs. It has been less effective in steering BPS projects towards Lower Income Developing countries. The annual report of 2014 shows the following spread of projects of the entire period of operation (2006-2014) of Finnpartnership and specifically on 2014.
On the whole the allocation of BPS funds to least developed countries slightly increased from 16% (for the entire period 2006-2014) to 17% in 2014, whereas allocations for other low-income and lower-middle-income countries decreased in 2014 in favour of a significant increase of BPS allocations to Upper Middle Income Countries from 18% (overall period) to 28% in 2014.

The evaluators have analysed project summaries of BPS projects that were approved by Finnpartnership in the three country studies. Because of the sheer volume of project proposals it was decided to use the country field-visit selection in the ToR of this evaluation as the selection criterion for this selection. In total, project summaries of 27 projects were reviewed (8 projects in Tanzania, 10 in Vietnam and nine in multiple countries (including Zambia).

From this analysis the following conclusions can be drawn:

- All projects are assessed on development impact potential. The assessment process is not elaborated in the summaries; however the development impact potential is translated into a score on a 100-point scale.

- The average development impact assessment of the 27 projects analysed was 41.6, but the differences on this scale are considerable. The highest development impact assessment score was given to a transport sector project in Tanzania with a score of 66 and the lowest score was given to an ICT projects in Vietnam with a score of 18.
- The assessment on this 100-point scale appears not to have a minimum, because the lowest impact-score receiving project was also approved. Overall, with the average score 41.6 assessment seems quite critical and heavy. Only four projects received a score above 50% (50 point). Also four projects that were approved received a score below 30 points.

- The evaluators have looked at the committed funding by Finnpartnership as compared to that applied. Here it seems that commitments with an average of 66.3 % are slightly higher than requested funding with an average of 61.9 %

- The project summaries contain in almost all cases (except four) good argumentation of the assessment, but at the same time they indicate that projects with low development scores are also approved (only projects in Upper Income Developing Countries have to have a development impact, although it is not stated in the reports what has to be the minimal assessment score).

**Other development impacts mentioned in the Finnpartnership reports**

Because Finnpartnership projects are only disbursed at the end of the activity and recipients have two years to complete the approved BPS project, final reporting of projects on outcomes is done two years or more after the commitment was made. Due to this mode of reporting, this evaluation could only look at the most recent available reports of Finnpartnership (on 2014) in order to be able to analyse data of BPS projects that were (partially) implemented in the AFT-AP period of 2012-2015.

The annual report of 2014 presents the following results and outcomes of projects that started in 2010 on which final monitoring information was available (65 projects). 24 projects (37%) out of 65 reported to be successful. According to Finnpartnership this percentage of successful completion seems to be decreasing in comparison with previous years.

22 companies (92 % of successes reported) report the business activities that resulted from the BPS project to be profitable. Four companies stated that the profitability of the business activities could not yet be assessed. The remaining (39) companies indicate that their projects are not yet profitable, but eight anticipate them to be in the future. Five companies indicated that the initiative started is not likely to become profitable.

23 companies reported on direct jobs created as a result of the BPS project. According to these reports 622 persons (29% women) were employed in initiatives and that 307 of these jobs were newly created jobs. Companies expected still to increase jobs in the coming years (16 companies indicated and estimate of employing 409 people in the next two years). 16 companies also reported that indirect jobs were created. 19 companies reported on either having a positive impact on women's employment or working conditions or reported that other aspects of the project have had a positive impact on gender equality. Promoting gender equality is one of the cross cutting objectives of Finnish development policy.

The reports on job creation by Finnpartnership show the same challenges that were already observed in the assessment of the RBM framework of the AFT action plan. Different categories of employment show up (direct and indirect) and there is also a challenge to report FTEs or jobs (in fact not 622 jobs were reported but 621.5). Additionally, there is confusion regarding new jobs and existing jobs. These findings, combined with the fact that only about 35% of the project partners did report on job-creation, underscore the conclusion under the RBM assessment of the AFT plan that significant improvement in reporting is still required.

Technology and knowledge transfer, as well as positive training impacts were the most common development impacts reported by BPS project holders: 60% of projects included some form of knowledge transfer. 52% of projects included training on a variety of aspects such as: production and assembly; programming; product development; use of machinery and software; quality systems and thinking;
financial management; human resources management; marketing; procurement transport and import requirements; recycling; and data security.

57% of companies directly employing staff state that they pay better than average salaries, which is identified as the most important socio-economic impact of the BPS projects. The companies that provided reporting on these aspects estimated that salaries were between 4-30% higher than the national level, but it is not specified if this relates to specific sectors. Other effects reported were for example in the introduction of more flexible maternity leave; education facilities for children of staff; annual health checks and housing facilities provided by companies.

Nine companies (14%) reported development impacts relating to improvements in infrastructure. According to the reports, this impact mostly concerned improved energy production, day care, schools, hospitals and health centres.

45% of companies reported on development impacts through improved production capacity and access to markets; starting up production of new products in the target country; improvement of product quality; strengthening exports of the target country or establishing companies in rural areas or non-industrialised towns.

All companies receiving BPS support are obliged to follow international environmental standards. 29 companies (45%) reported on additional environmental impacts of their projects. The most significant environmental impacts are the use of energy efficient and environmentally friendly production methods.

Although these reports indicate that many development results were obtained, the data is not fully convincing. Data is provided without comparison with baselines and therefore the specific BPS impact cannot be established. Benchmarking (if done) is done against very general averages. More importantly, many of the results and impacts reported by the companies are not a direct impact of the BPS funding, because that funding was only allowed for preparation of investment and trade activities and not the activities themselves. These follow-up initiatives were done by the companies themselves with other sources of funding. Additionally, and maybe even most importantly, the reporting information is self-reporting by the subsidy receiving companies and might therefore be somewhat biased.

The evaluators have also tried to obtain more information on results and impact of the BPS projects, but encountered the same challenges as Finnpartnership (see below). The companies that have implemented BPS projects are the source of information and therefore somewhat biased and tend to stress positive development outcomes of projects. The findings of the evaluators are thus in line with what is reported by Finnpartnership, but stress the need for more impact-focused research to obtain more information on impact aspects of Finnpartnership funding.

**Analysis of 138 Finnpartnership Monitoring reports**

The information provided by Finnpartnership on the development impacts of the BPS projects in the annual reports was cross-checked with an analysis of 138 project reports that were submitted to Finnpartnership by the BPS project partners in 2013, 2014 and 2015.

The main points of that analysis are briefly presented in the figures below.

The first table presents main results reported by companies after the realisation of their BPS projects. These results usually refer to projects that were started two to three years earlier.
The figure shows that three types of results are reported far more often than other results and in more than 50% of the BPS-projects one or more of these results are mentioned:

- identification of business partners (in 74% of the project reports);
- realisation of a feasibility study (72%); and
- formulation of a business plan (59%).

Results that were reported least frequently were:

- imports from developing countries (in 4% of the project reports); and
- piloting of Finnish environmental technologies (5%) (which of course are also not relevant to all projects and therefore are expected to be reported less often).

The development results reported in the BPS reports of companies refer to the number and kind of jobs created in partner companies in developing countries and in the applicant company. However, the reporting (as already observed earlier in this case study and in the overall AFT evaluation) on jobs cre-
ated is problematic, because this information is interpreted differently by different partners and reporting is incomplete. It is impossible to aggregate results in a reliable way. The number of jobs created is at best an indirect impact of the BPS projects, because BPS support is not enabling investments in direct job-creation. Therefore, there is also an attribution challenge when looking at jobs created. A careful look at reports leads to the finding that there have been noticeable effects on jobs created in partner/daughter companies in development countries, but that employment effects in Finland among the BPS project holding companies are negligible.

36% of the project reports mention positive effects of BPS projects on employment of women and working conditions of women and 30% of the reports investigated mentioned effects on gender-equality and non-discrimination of women. Also here gender effects might be related to the BPS project support, but there have also been other factors that have influenced performance of companies on this aspect.

The figure below presents the type of training that was most frequently done in BPS projects.

**Figure 7: Training activities reported in BPS project reports (2013-2015)**

![Training activities reported in BPS project reports](image)

54% of the Finnish BSP companies indicated to have realised form of training for staff and management of local partners and 51% indicate that there have been special training programmes that were realised during or after BSP implementation. A considerable number of reports (32%) also indicate that local communities were involved in training activities.

The BPS reporting formats also ask about which aspects were most commonly included in technology and capacity transfer. These are shown in the figure on next page:
The most common areas of technology and knowledge transfer were reported as follows:

- Working conditions and work methods (41%);
- Corporate organisation (corporate identity, mission and approach) (36%); and
  Marketing (34%)

Least often mentioned (in less than 10% of the projects) are training and capacity development on specific technological aspects. There appears to be a focus in training and capacity development on soft skills.

The market effects of the BPS projects are limited, but it is important to realise that these effects are usually not direct effects of BPS support given, because market development and investments are excluded from the BPS support.
The most important indirect market effect (mentioned in 40% of the projects) is that activities have led to improved quality of products and services that are delivered by the partner companies in developing countries. In 26% project reports positive effects on exports were mentioned. The effects that were reported least often included that the BPS project led to the emergence of an entirely new sector in the target country (7%) and also effects on increased competition (8%) and increased production of raw materials (8%).

The BPS reporting formats also request information on infrastructural effects of the BPS projects. In all cases the effects reported on this aspect were extremely limited, which is consistent with the fact that the BPS project itself does not fund such activities and also in many of the projects infrastructural effects are not relevant. This also leaves a question mark with the need to include these sections in the BPS reporting formats.

Reporting on social effects of the BPS projects is very diverse and impossible to aggregate. These effects depend very much on specific project contexts, locations and sectors.

Environment is also included as an obligatory criterion of reporting in the BPS projects, because environment is a crosscutting issue of Finnish development policy. These effects are shown in the figure on next page:
Only a small percentage of the BPS project reports mention positive environmental effects. The effect that is most often mentioned is the use of more energy and environment friendly production methods and production inputs (26% of the reports). Attention to environmental standards and implementation of these standards and the implementation of environmental strategies are mentioned in slightly more than 20% of cases. Only 9% of the project reports indicate that environmental effects are monitored. The use of renewable energies is the final environment aspect that is mentioned in more than 20% of the project reports.

The effect on imports reported in the BPS project reports are noticeable. In 19% of the project reports some positive effects were mentioned on imports, which is significantly higher than in the direct effects of the BPS when only 4% of the reports mentioned positive effects on imports. It is not clear why more companies report positively on this aspect under another heading, but perhaps they take a more long term perspective when responding to this question. Other effects on trade are much lower and most often refer to improved quality of products and increase compliance with certification requirements (all between 5 and 15% of the BPS project reports). Such effects are also sometimes reported by companies that acquire products through subcontracting (but these effects are mentioned in less than 15% of the BPS projects).

Only in a few cases BPS projects have directly or indirectly led to the establishment or expansion or changes in legal entities in developing countries (13% of the reports) and in some cases these effects are temporary as entities are discontinued (5%).

The findings of the evaluators in this project-report analysis are largely in line with what is reported by Finnpartnership in its annual reports.

The reports on the BPS projects show that development effects are obtained, but on most of the indicators this is only the case in less than 50% of the projects supported by BPS and regularly only around 25% of the projects.
The most important effects of the BPS projects are that companies have increased their knowledge on business partnerships, feasibility of production and business plans. The development effects mentioned above indicate that the BPS support in a considerable number of cases has been helpful for companies in discovering a certain business initiative is not feasible. This is also confirmed in several follow-up interviews with Finnpartnership project holders. Of course this represents a clear value to the applicant companies in allowing for better investment decisions based on the information gathered in the feasibility phase. However, when looking at it from a development perspective a decision to withdraw cannot be valued the same as a decision to continue business in the developing country. It should thus be noted that the development impacts of the BPS support in developing countries remain limited.

**Analysis of Match Making Facility and company database**

The evaluators researched the match making facility of the website and the results are presented below. The match making service on the website mentions that in total 277 companies are registered. Within this total there is one company from Finland (a remaining registration from the trial period) and nine companies that cannot be searched in the database (one of them because no country label is given to it) because they are not properly labelled.

The geographical analysis shows the following coverage and spread.

**Figure 11: Geographic spread of Match Making Facility (March 2016)**

Source: Finnpartnership Website (June 2016). N=306

There is only one Finnish partner country, Vietnam, featured in the top 11 companies registered under the Finnpartnership Match Making facility, and it is also ranked highest. There are 41 Vietnamese companies registered in the Match Making Facility. This number is even higher than for India and China were the highest number of BPS projects were registered.

Other partner countries of Finland, Ethiopia and Tanzania, have a considerable number (6 each), but are not in the top 11 of matching countries. All other Finnish partner countries are weakly represented in
the Match Making Facility with a mere one or two business registrations and in two partner countries there are no contacts at all (Mozambique and Myanmar).

In total there are registrations from 34 countries and this illustrates that the Match Making Facility is much more focused than the BPS modality, although still widely spread, with nine countries with only one company registered, five countries with two businesses and four with three companies. The top five countries (Vietnam, Ukraine, India, Peru and Sri Lanka) together, account for 47% of all business registrations.

Similar as under the analysis of the BPS modality, the focus of match making is on Asia and the same three countries being most represented (Vietnam, India and China). Additional Asian countries in the top 11 are Sri Lanka and Pakistan. Together these five Asian countries represent 35% of the company registrations in the Match Making Database.

There are significant differences between the Matchmaking and BPS facilities, when one looks at Africa and Latin America. No Sub-Saharan country features in the top 11 of company registrations and only Egypt is represented from that continent. The four Latin American countries in the top 11 are 25% of the total number of company registrations, which means that there is a considerable interest from Latin America (in fact only South America), but this is not matched by the BPS facility that focuses on Brazil. Only in Peru both facilities provide considerable support. This indicates that the business partners in establishing and developing their business partnerships in Latin America are largely on their own although in some countries they can be supported with economic diplomacy efforts from Embassies and Team Finland.

Complementarity with Finnfund is not within immediate reach, because the scope of investments of Finnfund is on larger investment projects. In terms of geographic coverage there are possibilities for synergy in Asia (although not so much in Vietnam) and in some African countries where Finnpartnership and Finnfund are both active, such as Tanzania and Kenya. Finnfund’s presence in South America is very limited, only allowing limited possibilities for coordination and synergies.

In conclusion, The Finnpartnership Match Making Facility does not establish a good match with Finnish presence in developing countries and with other instruments in development cooperation or in trade promotion. Only in Vietnam there seem to be possibilities for synergy, but when investigating the BPS projects and Match Making facility among partners and some business contacts in Vietnam, the approved BPS projects and the match making registrations have not led to many fruitful and sustainable business relations in this country. Stakeholders indicate that this is caused by the fact that the Vietnamese Government control on businesses is still high and also that corruption levels in this country are high, which inhibits developing fruitful and sustainable business relations.

Match making in Africa has not developed and is not an effective instrument to complement other activities of Finnpartnership and MFA and embassies in this region and more specifically in partner countries, maybe with the exception of Tanzania and Kenya, where somewhat more activities are taking place.

The business interest in the MM facility from South American countries is remarkable, but it seems a stand-alone feature. There are limited possibilities for synergies with other private sector development instruments, maybe with the exception of Peru and Brazil.

The sectoral spread of the Match Making Facility is presented in the following figure.
Figure 12: Sectoral spread of Match Making Facility (June 2016)

The sectoral spread of registered companies in the Match Making facility under the 34 different sectors managed by Finnpartnership is strongly focused on 10 sectors.

Similar to those observed above under the BPS facility, ICT (49 companies), energy (16) and environment (13) are among the most important sectors and again the forestry, wood and paper sector, with only seven companies, is quite weakly represented. This might be because some of the companies involved are quite big and outside the remit of Finnpartnership support. Some of them even work with Finnfund and use large investments.

Other top-sectors include agriculture and food processing, which could be an interesting sector to consider for further developing initiatives in business linkages in agricultural supply chains, as Finnish development cooperation has been and continues to be active in this sector (e.g. in Zambia). Also textiles and clothing and manufacturing could present sectors in which supply and value chain linkages could be further explored.

The Finnpartnership annual reports show that business registration in the database is only one activity of the Match Making Facility. Activities mentioned in annual reports of 2012, 2013 and 2014 include:

- Matchmaking events (Doing Business with Finland) in 2014 were organised in the target countries of earlier marketing efforts, such as Vietnam. There were also specific efforts and activities in Algeria, Ecuador, South Africa, Ethiopia, Indonesia, Colombia, Pakistan and Sri Lanka. In 2013, 20 events of Finnpartnership were organised in Peru, Vietnam, Tanzania, India, Zambia, Kenya, Ethiopia and Nigeria. The 2012 annual report mentions meetings with the business community in Peru and visits to embassies in Vietnam, Zambia and Namibia to explore more intensive cooperation with embassies in these countries. During the Finnpartnership field missions, events were organised to provide a presentation of Finnpartnership to companies of developing countries and to provide information on Finnish companies and general information on Finnish markets.

- In addition to organising these matchmaking events with companies, during these visits Finnpartnership staff met with embassy staff, representatives of chambers of commerce and other actors in the main sectors of these countries.
In some countries such as Chile and India, Finnpartnership works with locally based company spotters. These local spotters are helpful in increasing the quality of business registrations. In other countries also local business associations, chambers and Team Finland members in Finnish embassies sometimes support application processes of local companies leading to improved quality of applications.

From the annual reports, it becomes clear that in the whole period of 2012-2014, Finnpartnership has been quite active in only two of the current partner countries: Vietnam and Ethiopia. Additionally there has also been considerable presence is some former partner countries such as Namibia and Peru. While in 2013 missions were conducted to the partner countries Kenya, Tanzania and Zambia, these were not followed up in 2014. Instead, a considerable number of missions were organised to other developing countries.

The 2014 annual report of Finnpartnership contains an analysis of the results and follow-up of initial match making activities. These are presented in the table below:

**Table 2: Follow Up initiatives on Match Making actions of Finnpartnership (2009-2014)**

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Communication between companies</td>
<td>25</td>
<td>19</td>
<td>18</td>
<td>6</td>
<td>7</td>
<td>35</td>
</tr>
<tr>
<td>Planning of company visit or meeting</td>
<td>3</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Company visit or meeting carried out</td>
<td>0</td>
<td>7</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>Concrete agreement for collaboration</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Concrete collaboration initiated</td>
<td>1</td>
<td>8</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>7</td>
</tr>
<tr>
<td>BPS application received</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>0</td>
<td>6</td>
</tr>
<tr>
<td>Total follow up actions reported</td>
<td>30 (36%)</td>
<td>36 (31%)</td>
<td>26 (25%)</td>
<td>14 (14%)</td>
<td>16 (22%)</td>
<td>62 (38%)</td>
</tr>
<tr>
<td>No results reported</td>
<td>37 (44%)</td>
<td>74 (63%)</td>
<td>72 (70%)</td>
<td>77 (76%)</td>
<td>42 (58%)</td>
<td>53 (33%)</td>
</tr>
<tr>
<td>Not responded</td>
<td>17 (20%)</td>
<td>8 (7%)</td>
<td>5 (5%)</td>
<td>11 (11%)</td>
<td>16 (22%)</td>
<td>46 (29%)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>84</strong></td>
<td><strong>118</strong></td>
<td><strong>103</strong></td>
<td><strong>102</strong></td>
<td><strong>72</strong></td>
<td><strong>161</strong></td>
</tr>
</tbody>
</table>

Source: Finnpartnership annual report 2014

In total 640 initiatives from developing countries in business matchmaking are reported. This number is likely to contain some double-counts of the same companies that have participated more than once.

The Match Making facility currently has 277 registrations, which is 43% of the all initiatives presented in the table above. This means that less than half of the companies that have participated in business matching activities effectively register in the match making facility. Interviews with companies in the case-study countries confirm that after an initial contact companies do not proceed with registration since the process is seen an cumbersome compared to the perceived benefits.

The follow-up reporting of match making initiatives also show that this facility has a very limited impact on effective creation of business relations. In the period covered in the table, in less than 40% of the cases is any type of follow up action reported. In the majority of cases this has been some form of communication following initial contact, plans for company visits, in some cases the carrying out of these planned visits, and in a few instances the of signing partnership agreements. It is only the last two items, which contain actual successful results of follow-up on matchmaking. In a very limited number of cases concrete collaboration was started between companies, with only slightly higher amounts (success rates) in 2010 (7%) and 2014 (4%). In the entire period of the table, only eight BPS applications resulted from match making initiatives. Six of them were reported in 2014, which might indicate that this result is improving, but nonetheless remains less than 4% on the total of match making initiatives.
Interviews in the country studies with companies confirm that Finnpartnership’s Match Making facility and support has not become an important tool or mechanism to establish international business contacts. When Finnpartnership support was used, it was often not the main or original establisher of the contact, as companies had already been exposed to each other through other means (Internet and trade fairs).

In conclusion, the Matchmaking facility of Finnpartnership is complementary sector wise with the BPS facility, covering largely the same sectors with one important exception. Companies in developing countries have a great interest in the agriculture and food-processing sector, but this interest is not matched within the BPS sectoral choices or MFA priority sectors.

Follow-up actions on Match Making efforts of Finnpartnership and the Match Making facility have been extremely limited. The indication is the facility as a stand-alone bears little relevance for companies and particularly for companies in developing countries, particularly because the Match Making facility does not enable these companies to look for contacts in Finland. Only Finnish companies are able to utilise the facility for searching contacts abroad. However, the limited amount or registrations in specific countries and sectors does not permit a real matchmaking process, since this would require a considerable number of companies from a variety of sectors from which to choose.

It would interesting to explore agriculture and food-processing further in the business-matching facility, particularly in countries where Finland has had a historic presence in the agriculture sector. There should be possibilities to expand the number of interested companies both in the developing countries and in Finland, due to the existing interest expressed through Match Making in this sector. An additional argument for providing more attention to agriculture and food is that for several partner countries (mainly in Africa) of Finland the agricultural and food sector is the most important sector of international trade (see main report, chapter 3), and it is a key sector in which possibilities for poverty reduction and development impact are strong.

3 Main findings from field visits to case-study countries and interviews with Finnish beneficiaries of Finnpartnership’s BPS project support

In the three field visits to country studies in the AFT Action Plan evaluation, the evaluators have also visited representatives of private sector organisations and the representatives of the local partners Finnish companies supported through Finnpartnership.

The country study reports provide more information on these visits.

In all three country studies only a limited amount of interviews could be organised, with three partner companies per country and in one case a local representative of a Finnish company. In spite of the contextual differences in the three countries, the findings from the interviews quite consistent:

- Local partners have limited to no knowledge of Finnpartnership. Only a few have been exposed to Finnpartnership, usually in cases where local events were organised in which their Finnish partner company and Finnpartnership participated;

- The contents of BPS projects of the Finnish companies are usually not known to the local partners. Therefore only limited information could be obtained from these interviews. However, the fact that limited information is exchanged with local partners on BPS projects is of course a finding in itself;
- Most companies indicate that initial contact with the Finnish company in questions already existed and was not triggered by Finnpartnership support or events. The Finnish companies usually requested Finnpartnership support when (emergent) contacts had already been established;

- None of the local companies interviewed had registered in the Match Making facility and only a few of them knew of the facility, commenting that they found registration difficult;

- Many of the business contacts and initiatives focus on the development sector as a market and to a lesser extent in the private sector. There was one exception for ICT companies that have engaged with Finnish companies to explore markets in ICT service provision in Finland or other countries.

The Finnish embassies in the country studies are aware of Finnpartnership and its support facilities, but they indicate that they are not aware of any details on concrete projects or partnerships that are supported by Finnpartnership. There is good cooperation and exchange during visits of Finnpartnership to the partner countries and meetings are productive to establishing first contacts. However, after these initial contacts, limited follow up is done. Embassies also indicate that the capacity of Team Finland in countries is very limited in providing such follow-up support. This means that cooperation and exchange mostly remains limited to occasional visits and missions and meetings around and during them.

In Finland, five follow up interviews with Finnish companies that had benefited from Partnership support were organised and the results of these are briefly summarised below:

- The Finnish companies all expressed a great appreciation of the support that they had received from Finnpartnership. These companies stress that the BPS support was not only financial support, but that there was also very friendly, professional and timely technical support from the Finnpartnership team;

- The companies interviewed indicated that Finnpartnership has been important as an additional support to their business initiatives and that it had accelerated these initiatives and in other cases increased the scale of the projects. However, they also indicated that the initiative would probably have been done regardless of funding, although maybe later or at a smaller scale. This is also related to the fact that the companies need to have the money in house to be able to start up the initiative;

- The companies indicate that Finnpartnership has also been helpful in establishing contacts and organising meetings. Most companies have participated in trade missions and around these missions the extra support for events and meetings is appreciated. However, the companies interviewed also indicate that most of the relevant contacts were already established by company efforts themselves. Here too, the support of Finnpartnership is more an additional support to company efforts rather than the one creating business matches;

- Several of the companies gave examples that some of the BPS projects have not been successful in terms of establishing businesses or reaching development effects. These were nonetheless seen, from the company perspective, as extremely important because the support given enabled the companies to discover that initiatives were not feasible;

- All companies interviewed had developed projects and initiatives with the development sector as a market (and sometimes MFA or embassies): this was done in the health, education, data-platforms, geographic information systems sectors;

- All companies interviewed confirmed the great value of Finnpartnership support in starting up new activities in developing countries, but indicated that once the start-up was made no follow-up support modalities are available. This is particularly problematic for smaller SMEs that have limited access to funding.
5 Follow up on recommendations in Evaluation of Finnpartnership in 2012

The evaluation in 2012 produced a large number (24) of recommendations and therefore it is difficult to assess to which extent each of them has been followed up. Where relevant and possible the evaluators provide a short assessment of follow-up in italics.

1. Considering the relevance of the programme towards the current Finnish Development Policy programme as a whole: the relevance could be strengthened by focusing activities more on the least developed countries. A separate action plan shall be prepared to increase the interest towards activities in least developed countries.

This recommendation was not followed up. In practice the Finnpartnership support has moved away from lower income countries to higher income countries.

2. Considering the relatively low volume of support under the FP programme as a whole, scoping out the emerging markets might challenge the funding volumes. The volumes are critical in order to maintain certain efficiency under the current administrative structure. A reduction in volume could negatively affect the FP brand and current funding concept known by the Finnish companies. Considering the need of a certain volume and the high exposure of funding to emerging markets, we emphasize a focus on and prioritizing of supporting activities with developing impact on peripheral areas within these markets.

Volumes of support were not reduced, but the geographic and sectoral spread of Finnpartnership further expanded.

3. Putting too much stress on direct and immediate development effects and ignoring the logic of business development may lead to unintentional misunderstandings between Finnpartnership and their private sector client. Companies cannot be required to have expertise in development issues.

Finnpartnership is highly demand oriented and supportive to companies to the extent possible given official requirements. Reporting formats and procedures were simplified.

4. To foster the impact of the Finnpartnership, the level of actualized projects and the level of payments should be higher than today. The impacts are based on actualized projects in target countries.

The development of the portfolio does not show this trend and also no changes in eligibility of items for subsidy were made.

5. Finnpartnership should maintain the commercial, social and environmental criteria in project assessment.

This recommendation was followed and reporting was simplified through digital means.

6. A separate action plan shall be prepared in order to increase the disbursement rate. As part of the plan the FP should analyse the possibilities to extend the base of eligible costs both in terms of the current inception phase coverage and later implementation phases of strengthening the market position. In order to increase the disbursement rate the programme could more actively market FP services directly towards companies that have potential capacity of entering new markets.

Disbursement rates in Finnpartnership have not increased and fundable items were not expanded.
7. Especially among SMEs there is a demand for funding of implementation activities and FP should in a close dialogue with other funding agencies analyse the possibilities to develop and extend the funding concept to cover components under the implementation phase.

No follow-up was done by Finnpartnership, but this recommendation should be considered at the higher level of MFA, were it was also not followed up. Also in the current AFT action plan evaluation, this aspect is considered one of the key issues.

8. It is critical that the funding of activities under the inception phase results in activities that are of sufficient quality to support the further implementation of the internationalization process. Especially the support should provide for feasibility studies that create a qualitative base for the business plans to be used towards financing agencies and stakeholder throughout the internationalization phase.

Finnpartnership’s support focuses in practice on feasibility studies and business plans. This recommendation is redundant because this was also the case for Finnpartnership prior to the 2012 evaluation.

9. Finnpartnership could have a more active role in initiating innovative projects. Finnpartnership should further develop its services e.g. networking and data collection. Pilot projects could also be included in the FPP scope.

Finnpartnership has modernised its website and changed its reporting methods towards more digital information. Innovation projects received priority attention in both BPS and match making. Pilot projects are included in the portfolio.

10. Finnpartnership and other funding agencies such as Finnfund, Finnvera, Finpro and Tekes should in co-operation further develop the services for Finnish companies seeking business partners in developing countries. Further co-financing should be developed and the Finnpartnership programme should be connected to the ASKO-enterprise database that is used by agencies under Ministry of Employment and Economy (MEE). The use of same database would strengthen the cooperation between agencies under both MFA and MEE as it would enable information of common clients and regional networks of companies that are interested in entering new markets throughout the whole Finland. The use of same database would also give more information regarding coordination of de minimis requirements.

See also recommendation 7. Finnpartnership coordinates and cooperates with other actors, particularly during country visits. However, the challenge remains to develop other new instruments for business support. No cooperation between MFA/Finnpartnership and MME was developed in the past period.

11. The objective set for the operator should be reconsidered to include challenging areas like disbursements rate and unused funds.

This recommendation was not followed up by MFA and Finnpartnership. It might be an element in the new tender agreement on Finnpartnership for 2016, but this information was not available to the evaluators.

12. Finnfund as the responsible operator shall ensure that the employment structure effectively supports the implementation of programme activities

This recommendation is followed up, although there are current staffing challenges for Finnpartnership, because the team was reduced.
13. The programme has a steering group that enables a valuable network of programme stakeholders. To further develop the work of the steering group an analysis of each member’s role could be made, where each member’s key added value and expectations towards strengthening the programme is defined. The direct link to the private sector could be strengthened by inviting companies to steering committee meetings to present their steps of internationalisation and to share practical experience about possibilities and challenges connected to the Finnpartnership programme.

*No follow-up involving private sector in the steering committee was done, while it could be an important and effective step to solicit closer cooperation and partnership with the private sector.*

14. The programme should strive to streamline the application and approval procedures.

*Within the given requirements and limitations, Finnpartnership has streamlined these procedures and companies generally express satisfaction with the these procedures.*

15. A permanent integration of FP into Finnfund is broadly supported, with clear synergies, and should be further analysed.

*This recommendation was followed up, and it was investigated to revise the law on Finnfund to include the possibility for Finnfund to manage government grants to others. In early 2015 it was decided not to pursue renewing the law. The current evaluators do not see a close match between the mandates of Finnfund (financing) and Finnpartnership (subsidies and matchmaking) that would justify the recommendation of the 2012 evaluation.*

16. The current concept of the matchmaking component should be reconsidered and possibilities of integrating the services into more active actors should be analysed.

This recommendation was not followed up and the matchmaking facility’s effectiveness remains limited.

17. To receive more applications with good quality, FP could actively promote the market potential of developing countries, be directly in contact with potential companies with capacity. Especially for companies that already have some interest in certain countries by attending governmental business promotion visits as well as companies attending internationalization seminars.

This is done by Finnpartnership, but given the demand driven approach, the spread of promotion activities is very wide and this limits the capacity to invest in quality improvements through a more focused support.

18. FP should actively contribute to Team Finland procedures in order to harmonize the activities of Finnish agencies working for internationalization.

*This recommendation is followed up: Finnpartnership is actively contributing to Team Finland at central and decentralised level and there is information exchange. However, this exchange does not yet include coordination.*

19. New funding forms like capital loan instruments should be considered and analysed as an option and an extension to the current funding. FP should analyse the possibilities and impacts of changing the instrument into unrestricted towards only concerning Finnish applicants.

*This recommendation is not yet followed up, but it is also not in the hands of Finnpartnership. The recommendation remains key and will again be made, during this AFT evaluation, but this time more clearly directed to MFA. MFA informed that it is already working on a paper, of which a draft exists, but this information is not yet public.*
20. Key performance indicators should be more linked to impact of program.

This recommendation is not very clear, because Finnpartnership has a very sophisticated reporting system on a wide variety of indicators. There are also key performance indicators, of which some of them are difficult to measure, but that is a more general challenge in AFT related reporting.

21. To improve the awareness of the principles of Corporate Social Responsibility among companies, Finnpartnership should add the principles, such as those of United Nations Global Compact, in the programme criteria.

Many of the Global Compact principles and CSR principles are already integrated and it seems cumbersome to add yet another set of criteria. It would be better to integrate these principles more clearly in existing criteria and principles.

22. The questionnaire questions should be reassessed to correspond better the size and objectives of the FP funded projects. Also, the form of the questionnaire should be changed to include more open questions and more concrete data requirements.

This recommendation was taken up fully in the redesign of the Finnpartnership reporting formats.

23. It would be beneficial to hold final interviews for the company representatives to gain better understanding of different challenges and opportunities within the target markets and also to be able analyse deeper the development effects in a light of the cross-cutting objectives. Interviews would also potentially help to develop the program.

This recommendation is not systematically followed up as a final monitoring step, but contacts with companies and meetings with companies to discuss and reflect upon relevant issues are regularly held. Follow-up on this recommendation would be very costly and it is questionable what added value it would bring for development of Finnpartnership.

24. Clear and coherent communication is important for effective and fruitful cooperation with business. Finnpartnership should develop a communication strategy, which will cover internal as well as external communication on business sector cooperation issues, and also ensure coordination with other relevant government entities.

This recommendation is followed up, but this was also done before. Finnpartnership maintains a close dialogue with its companies. The website is comprehensive and there are many meetings and events. Recommendation 13 is related, in moving beyond communication and also develop partnerships. Here it still might be possible to take a next step.

When reviewing the 2012 evaluation report, the evaluators of this AFT evaluation come to the conclusion that many of the recommendations are vague and not easy to follow-up. It also seems that the evaluation was very focused on BPS and less on the other two services in the Finnpartnership portfolio.

In this case study, the evaluators agree with the previous evaluation that one of the main challenges of Finnpartnership is the low disbursement rate against commitments. Additionally, the need to adapt and review the BPS (and also Match Making) facility to improve results and follow-up on initial actions is also recommended by this evaluation. In this light, the current AFT evaluation, in general already observed the need to add instruments to the AFT portfolio to provide financial support to Finnish SME’s to follow up on Finnpartnership projects and match-making for their initial investment needs. Finally the evaluators also subscribe to the recommendations above, which are geared towards a more close involvement of the private sector in Finnpartnership not only as an external adviser and beneficiary but also as a partner.
6  **Survey findings among 78 Finnish companies that have received BPS support from Finnpartnership**

As a final element in the analysis a survey was sent to all Finnish companies that have received BPS funding from Finnpartnership. There are 584 projects in the Finnpartnership database, but there are companies that have submitted more than one request and even multiple requests. There are 467 unique company records in the BPS database. 78 companies responded to the survey, which is 17% of the total group of beneficiary companies. This sample size is sufficient to be representative for the full population of BPS project beneficiary companies.

**Figure 13: Sector of applicant-company (%)**

Source: Finnpartnership survey, Jan/Feb 2016. N=78

Most respondent companies that have applied for BPS project support are in the ICT, Education services and environment sectors. The sectoral spread of applicant companies is wide. These findings correspond with the general BPS database.

**Figure 14: Annual turnover BPS applicant-companies (%)**

Source: Finnpartnership survey, Jan/Feb 2016. N=78
By far the largest categories of applying companies are MEs with an annual turnover of less than EUR 1 million. Almost 80% of the applicants have an annual turnover of less than 5 million Euros.

**Figure 15:** amount of staff/employees of BPS applicants (%)

![Pie chart showing the distribution of staff/employees categories.]

Source: Finnpartnership survey, Jan/Feb 2016. N=78

24.2% of the applications come from individual business initiatives of self-employed people and another 34.8% comes from companies with a staff of less than 10 persons. This indicates that most of the demand does come from the smaller enterprises in the SME-sector.

**Figure 16:** Number of BPS applications submitted to Finnpartnership

![Pie chart showing the distribution of the number of applications.]

Source: Finnpartnership survey, Jan/Feb 2016. N=78
The largest share of companies (48%) has only submitted one application for BPS funding. However, there is a considerable group of 36% that has applied twice. Only a small percentage of companies are more regular users of the facility.

**Figure 17: Geographic spread of company initiatives (%)**

![Geographic spread of company initiatives](image)

Source: Finnpartnership survey, Jan/Feb 2016. N=78

By far the largest number of initiatives focus on Asia with around 55% of the proposals. Africa accounts for 25% and this is followed by the Middle East and North Africa region. Only a few proposals target Latin America and there are also only a few in Europe (mostly Ukraine).

**Figure 18: Year of completion of BPS activity (%)**

![Year of completion of BPS activity](image)

Source: Finnpartnership survey, Jan/Feb 2016. N=78
Of the responding companies, most of the initiatives (49.2%) are still ongoing. This is relevant to take into consideration under the following questions, particularly those that refer to results and effects of the BPS, because the results that are reported are not yet after completion of the project. Around 40% of the projects are completed. The responses also show that a considerable part of the respondents (10.2%) indicate that they had never started the BPS project. Those who had not started, usually indicated that the procedures of Finnpartnership are complicated, that support is small and only a few activities are eligible.

67% of respondents indicate that they requested for reimbursement of BPS project activities, though there is a considerable number that have not requested reimbursement or have only requested partial reimbursements.

The findings on these two indicators are in line with the finding that project reimbursement rates of BPS projects are low.

An important finding, which was also present in the interviews with Finnish BPS companies, is that almost 89% of the companies that apply for BPS support, finance their activities from their own funds prior to BPS refund. The companies do not resort to loans. This means that only companies with financial means can make the investment in a BPS projects. Furthermore this indicates that companies without the means to pre-finance activities cannot apply for BPS, as they cannot cover the costs related to it.

Figure 19: % of costs BPS project covered by Finnpartnership

![Pie chart showing distribution of costs covered by Finnpartnership](image)

Source: Finnpartnership survey, Jan/Feb 2016. N=78

The largest group of respondents indicate that they have received between 50 and 75% of the costs of their projects, followed by an almost equal group of companies that has received between 25 and 50%. It is likely that these categories correspond to the funding categories of Finnpartnership (30–50–70). A smaller group indicates to have received between 10 and 25% of the total costs. No companies reported in the 0–10 range, but also a small percentage indicated to have received no reimbursements, which implies that they have not requested any disbursement from Finnpartnership.
The figure shows that Finnpartnership usually (42.9% of all cases) reimburses between 50% and 75% of all costs of the BPS project that were originally approved. Nevertheless, in a considerable percentage of cases the final reimbursement is lower (23.2% more between 25 and 50% and 17.9% between 10 and 25%). This indicates that in the final reports costs of implementation of the actual activity did not match those in the original proposal and that not all specific costs presented were eligible for BPS funding. This also causes disbursement rates on BPS projects to be further decreased in relation to original commitments.

32.8% of the respondents indicate that the realisation of the BPS project has had an impact on their imports from the target company. A slightly higher percentage (34.3%) indicates that there is no such effect. Another third indicates that they do not know or their BPS project was not linked to import activities.

A more or less similar distribution between the three response categories as under imports can be seen under exports. However, the group of companies that report changes on exports is larger than the group that reported such increase under imports. 42.4% report such effects on exports. A similar finding was obtained in the analysis of trade-flows from Finland to developing countries, which indicated that Finnish companies are more export than import oriented in developing countries.
Of those companies that responded to there have been effects on their imports were subsequently asked to which extent their imports changed. For the largest group this question does not apply. 32.8% of the companies indicate that there was no noticeable change. 18% responded that there was a significant increase of imports with more than 10% and 9.8% of the companies reporting increases of less than 10%. A very small percentage indicated that their imports even decreased slightly after the BPS project.

**Figure 22: Development exports after finalisation of BPS project**

![Figure 22: Development exports after finalisation of BPS project](image)

Source: Finnpartnership survey, Jan/Feb 2016. N=78

Effects on exports are also stronger than on imports. 22.6% of the companies indicate that exports have increased with more 10% while another 9.7% indicates smaller increases. The figure also shows that for a large group there were no noticeable changes on exports. It is also interesting that a small group of 11.2% of companies report negative developments in their exports, which indicates that the BPS for that purpose was not successful.

52.2% of the companies indicate there was an effect on their revenues after realisation of the BPS project.

**Figure 23: Amount of change in revenues after finalisation BPS project**

![Figure 23: Amount of change in revenues after finalisation BPS project](image)

Source: Finnpartnership survey, Jan/Feb 2016. N=78
The degree of change in revenues are considerable, but the largest groups of respondents indicate that the question does not apply or they do not know (23.9%) or indicate there was no notable change (20.9%). However, the companies that report positive developments in revenues outnumber those that report negative developments. 15% report negative revenues among which 10% a decrease of even more than 10%. On the other hand 19.4% of the companies report more than 10% increase and 20.9% of companies reports smaller increases.

The responses on the three categories of questions relating to imports, exports and revenues all point in the same direction. Although the largest groups of companies indicate that imports, exports or increase of revenues were not relevant or applicable in the realisation of their BPS projects, there is a clearly larger group of companies that report positive changes in imports, but particularly in exports and revenues. These findings are an indication that the BPS facility is supporting Finnish companies to become more internationally oriented and outwards looking.

**Figure 24: Appreciation of Finnpartnership’s support by BPS project-companies**

The answers in the figure above and next 5 figures were all given on a five-point scale from 1 (disagree) to 5 (agree). The average middle score therefore is 3.

Respondents indicated their agreement on a range of performance aspects of Finnpartnership and the importance of Finnpartnership funding to the BPS projects.

The appreciation of respondents on the knowledge and network of Finnpartnership abroad and in Finland is close to the average but slightly below. This indicates that companies are somewhat satisfied with the knowledge and networks, but that they also see clear room for improvement. On the extent to which Finnpartnership was essential to finding new business contacts and to establishing new long-term partnership relations the companies are more critical with scores around 2.5. This assessment underscores earlier survey findings as well as interview and desk-study results that the knowledge and networks of Finnpartnership exist, but may be too thinly spread. Also on the extent to which Finnpartnership support was essential for the realisation of the BPS initiative, the score given is slightly above
2.5, which also underscores earlier findings that the financial support of this modality is not crucial for the realisation of the activities, but that it is considered helpful.

On the question on user friendliness of Finnpartnership application procedures of Finnpartnership, the average score is slightly above 3.5, which is clearly in the positive appreciation range. Respondents indicate that in spite of somewhat bureaucratic procedures, Finnpartnership staff is helpful and supportive. In the end the bureaucratic procedures of Finnpartnership are not seen as an impediment to submit projects and apply for funding.

On user friendliness of reporting procedures almost a similar score is given, slightly above the 3.5 mark. Although some companies comment that reporting procedures are a bit complex and formats are very long, they note that they are in the end fairly easy to understand and fill out. Additionally, procedures and formats have been simplified and made available digitally.

Also on the user friendliness reimbursement procedures the respondents are positive, but the average score of 3.1 is clearly lower than under the previous two questions. The more critical answers, though still positive, are mostly related with the fact that procedures are long and complex and that eligibility of items for funding are complex. Also complex auditing processes are sometimes mentioned.

**Figure 25. Satisfaction with Finnpartnership services by BPS applicant-companies**

**To what extent were you satisfied with the services provided by Finnpartnership**

The figure above shows clearly that service provision by Finnpartnership is highly appreciated by most companies with very high average scores between 4 and 4.5 points. Particularly the speed of answers and support provided by the Finnpartnership staff is highly appreciated. Although the speed of payments is slightly lower appreciated it is still in the high range.

A final question to respondents was not specific on Finnpartnership but on the general awareness and knowledge of different available support organisations and instruments of MFA in doing business in developing countries. The results are shown in the figure on next page.
Figure 26: Familiarity with other Finnish instruments and modalities

Being direct beneficiaries of Finnpartnership it is not surprising that respondents indicate that they have a high awareness and knowledge of Finnpartnership. The facility that comes in second place is TEKES, which is also well known by the respondents. To a lesser extent Finpro, Finnvera and Finnfund are also quite well known to the majority of BPS project-companies. Less known is the support than can be given by Finnish embassies and Team Finland and staff within MFA. Least known are the Finnish Export credit facility, concessional credits (but these are currently also not active) and BEAM (but this facility is still relatively new and it is currently being evaluated separately, so no further research was done on this facility in the framework of this evaluation).

The responses to this question indicate that more information and marketing could be done on the support that can be given by embassies and by Team Finland for companies in establishing and strengthening their business relations in developing countries. On the other hand interviews with embassies and members of Team Finland in the country studies also indicated that available staff to support companies in their international linkages is limited, particularly outside the direct context of specific (trade) missions.

7 Conclusions

Finnpartnership is a relevant Private Sector Development facility that responds to important business needs in starting up new business activities in developing countries. However, Finnpartnership support is one of the few business support modalities that exist in Finnish development cooperation and the facility is not well linked to other relevant support channels and facilities for private sector development and trade related support. As a result, the potential of Finnpartnership is not fully used. BPS projects generally result in immediate results and outcomes but their translation into development and economic effects is less clear and limited, because follow-up support mechanisms for SMEs using this
service do not exist. The Match Making Service of Finnpartnership has more limited effects and has not led to many sustainable business linkages, particularly in Finnish partner countries.

Coordination and cooperation of Finnpartnership with embassies and with Team Finland exist, but are mostly concentrated around (trade) missions and country visits. The BPS and Match Making facilities are not well linked with other departments and embassies and information sharing is limited. There is a particular need to improve communications and linkages with Team Finland (Finnvera and Tekes). Awareness of embassies and other departments in the Ministry of specific projects that are supported by BPS is limited to a few examples. Finnpartnership as private sector development facility is housed outside the MFA and it operates as a separate silo in the range of Finnish development cooperation instruments.

An important bottleneck indicated by many stakeholders and also already identified in the 2012 evaluation is the fact that following BPS support Finnish SMEs do not have access to finance facilities to start up activities and investments that may result from the FP supported business identification, feasibility studies, business plans and pilots. After initial funding, SMEs initial are wedged in the “missing middle” of support instruments for the private sector. Their needs are specific; rather than subsidies or technical support, finance is needed and this is not provided.

In line of what was observed in the 2012 evaluation, is the fact that Finnpartnership’s BPS disbursements against commitments remain almost alarmingly low. Many BPS projects do not materialise or only do so only partially, while consuming time and effort from Finnpartnership. The low disbursements are a clear indicator that BPS support is not sufficiently relevant and feasible for SMEs to be actually utilised. This bottleneck is increased because of the previous bottleneck mentioned that no follow-up support is available for BPS initiatives.

Finnpartnership service facilities (in both BPS and Match Making) are based on a demand driven approach that results in a thin spread over many different countries and also (though less) over different sectors. With the exception of Asia, and particularly Vietnam, and some African countries (Kenya and Tanzania) there is limited overlap with the presence of other Finnish actors and support instruments. The Match Making Facility is even more detached from other Finnish links and facilities, except in Asia and again particularly in Vietnam. The spread of Finnpartnership over many countries and sectors, though it can be explained by the demand driven approach, poses limits on the efficiency and effectiveness of Finnpartnership.

Sectors that are present in either Finnish development activities or in Finnpartnership activities are in most cases focused on sectors of clear added value of Finnish expertise. This is most noticeable in the ICT, environment and energy sectors and to a lesser extent in the forestry sector. Linking the experiences in both Finnish development cooperation and in Finnpartnership, the sectors of Water (not monitored as a sector), Agriculture and possible Educational Services could be sectors with Finnish Added Value that are not yet sufficiently recognised as promising areas.

Finnpartnership’s BPS support to companies seems to be more relevant from the “additionality” perspective than from the “enabling” perspective. BPS support provides a welcome push and accelerator effect on business start-up projects, but it is regularly indicated that these projects would have started also without the Finnpartnership support, although sometimes possibly at a smaller scale. On the other hand some companies indicate that they do not have access to funds to start up these initiatives and in those cases the retroactive funding mechanism of Finnpartnership’s BPS facility is not very helpful.

The business Match Making facility focuses on registration of companies in developing countries but it does not provide access to companies from developing countries to Finnish companies. This leads to one-sided Match Making, catering more for the Finnish companies than for the companies from developing countries that are registered in the database.
Additionally, the number of companies registered is extremely limited considering the geographic and sectoral spread. Good Match Making requires a choice of options and this is currently not sufficiently provided by the Match Making facility.

Reporting on the BPS projects and Match Making facilities are mostly output focused and where development indicators are used, reporting becomes more difficult and incomplete. This limits the possibility to learn from successful and less successful experiences. The success stories on Finnpartnership are an attempt to provide more in-depth information on experiences. However, considering the large amount of initiatives that are started but not completed or only partially completed, point to a priority need to also learn from less successful experiences and even failures.

Private sector companies are beneficiaries of Finnpartnership and are also regularly involved in consultations and exchanges with FP. The Finnish private sector does not yet participate as a partner in this initiative (as it does in Finnfund). This could be an opportunity for Finnpartnership to develop closer ties and become more relevant for the Finnish Private Sector not only with respect to the services it provides, but in identifying needs and opportunities for other support facilities.

8 Recommendations

This is a case study on Finnpartnership in the framework of an overall AFT Action Plan evaluation process. Specific on-site research and interviews were conducted only with a limited amount of stakeholders and projects in three country studies.

This means that this case study is not an impact evaluation of the Finnpartnership modality and particularly not of development impacts that have been produced by this private sector instrument beyond the country studies visited in this evaluation.

1. In the continuation of Finnpartnership as a facility for Private Sector Engagement in developing countries, it is recommended that MFA and Finnpartnership engage in dialogue to increase the relevance and complementarity of this facility with other instruments and facilities in Finnish development cooperation addressing the private sector development pillar in the Finnish Development Policy of 2016. The following more specific recommendations could be explored in this dialogue.

2. More coordination and cooperation between Finnpartnership and other Finnish development actors and instrument is needed. This will require more regular exchange and follow up of (trade) missions and meetings with embassies and regional departments in the Ministry to increase the exposure and outreach of Finnpartnership in the private sector in developing countries. There is a need to look for possibilities for more horizontal cooperation.

3. MFA should explore, not only with Finnpartnership, but also with Finnfund and with the Finnish private sector how the current “missing middle” in private sector support instruments can be covered. This will require the development of a finance mechanism (or maybe even multiple finance mechanisms) that will cater specifically for Finnish SME’s to become more involved in developing countries.

4. It is recommended for MFA to re-assess all the three Finnpartnership services (BPS, Match Making and advisory services) with the objective of developing them into more effective AFT instruments than currently. For the most important services (BPS and Match Making) the following points of focus in assessment are required:
a) Development of a strategy and action plan to increase the percentage of BPS disbursements against commitments as disbursements have remained very low. This will require looking in detail at criteria, regulations and procedures of BPS to identify possibilities for improvement. It is desirable to involve a panel of BPS applicants to support this identification process. This panel should include representatives of companies that have successfully completed BPS projects, those that have withdrawn from implementation, have not started their proposals and also companies that are yet to present their BPS proposals;

b) The business Match Making facility should be either terminated or very thoroughly overhauled. To be an effective matchmaking instrument the Facility needs a significant increase in registrations and requires the inclusion of Finnish companies in the facility. This is needed to allow for a two-sided match making process with sufficient choice for both sides. If such scale of operations cannot be achieved, the use of this facility will remain limited and the facility will not result in significant business matches.

5. It is recommended that Finnpartnership review its policies and mechanisms to provide more geographic and sectoral focus to its BPS and Matchmaking support. The MFA should provide inputs and suggestions on how an increased focus of Finnpartnership can be more in line with Finnish sectoral and geographical priorities in development cooperation. Increased focus should not come at the cost of the demand-driven character of the facility, but it should find a better match. An alternative could be to provide a hybrid mix of subsidies and website services globally with a more extended service range in Finnish priority countries and sectors.

6. It is recommended that Finnpartnership and MFA track and monitor activities in the water sector that historically had important Finnish private sector participation, so that initiatives in this sector become visible and can be better followed up. Water, education services and agriculture and food processing should be added to the current mix of strong Finnish value added sectors of: ICT (innovation), Energy, Environment and Forestry. These sectors do not only represent considerable private sector demand, but they are also highly relevant for development.

7. Finnpartnership should reconsider its current approach of providing retro-active funding, because it decreases the relevance of the facility to start up and trigger new activities of SMEs that otherwise might not engage in developing countries. It is known that up-front disbursements might have a negative effect on quality of proposals and commitments of companies, but there could be alternative hybrid and mixed methods of providing up-front funding. Also moving away from subsidies to finance could be beneficial to maintain quality and commitment.

8. Finnpartnership should expand the good practice of publishing success stories on its website to a more systematic approach to document success-stories but also brilliant failures. Only in this way, a real process of reflection and learning can be enabled to produce more insights in how Finnpartnership can increase its effects and impacts.

9. It is recommended that MFA and Finnpartnership to look for ways for a more active involvement of the private sector in this bit also other private sector development facilities (as is already done with Finnfund). This involvement should consider moving from consultation to active partnership and possibly even pooling of resources.
1 Introduction

This Evaluation has compared Finland’s Aid for Trade with Private Sector Development and Trade related policies, programmes and instruments in two other European countries that were considered relevant for the Finnish AFT context. Denmark and the Netherlands were selected as reference countries. The analysis has included a review of key policy developments, the design and composition of the Private Sector Development and Trade related instruments and (Aid) modalities and a meta-review of relevant lessons learned and recommendations from evaluations on private sector development and trade policies and interventions.

2 Denmark

Denmark is reforming its private sector aid policy and instruments. Denmark’s Act on International Development Cooperation dating back to 1971 has recently been revised. The Ministry of Foreign Affairs of Denmark (2011) strategy on Development Cooperation, “The Right to a Better Life”, seeks to fight poverty with human rights and economic growth (MFA Denmark 2012). Denmark has increased its AFT, from USD 298 million in 2006-08 to around USD 400 million in 2013, which represents 0.12% of its GDP (USD 336 billion, 2013). Most of the Danish AFT is concentrated on around 20 countries, among them Mozambique, Tanzania, Uganda, China, Kenya and Zambia. Most of its disbursed AFT goes to LDC (USD 192.3 million, 2013) and lower middle-income countries (USD 54 million). By category a significant part of AFT is disbursed for Building Productive Capacity (USD 225 million), especially in agriculture and is followed by economic infrastructure (USD 127.7 million).

Interviews with stakeholders in Copenhagen took place on 16 and 17 March 2016. Relevant business organisations, trade unions, and civil society were interviewed during the Conference “The Business of development” at Dansk Industri on 18 March 2016. Focus of this comparative country study was on the instruments introduced in 2015 and on the current perspectives for business in development policy.

Background

Denmark’s development policy is a central and integrated part of the country’s foreign and security policy. As part of the Ministry of Foreign Affairs (MFA), the Department for Danish International Development Assistance (Danida) is responsible for planning and implementing Denmark’s cooperation programmes with developing countries, while assuring the quality of the assistance. It falls under the responsibility of the Minister for Development Cooperation.

The Danish DFI is the Investment Fund for Developing Countries (IFU), an independent government-owned fund established by the Danish Government in 1967. IFU provides risk capital in the form of
equity, loans or guarantees for project companies established by Danish companies in one of the about 150 countries eligible for IFU investments. IFU can co-finance projects in developing countries with a per capita income below USD 6,138 (in 2012). 50% of IFU’s yearly investment must be made, however, in countries with a per capital income below USD 3,180. IFU provides advisory services combined with investments in the form of share capital participation, loans and guarantees on commercial terms for investments in manufacturing or service companies.

SMEs make up a large part of the Danish business, but companies often lack the necessary resources to make investments in difficult markets. Danish SME’s often possess advanced knowledge and technologies that can open up new business opportunities in emerging markets, and thereby contribute to economic growth and job creation - in the host countries as well as in Denmark. However, development and implementation of investments with SMEs is associated with relatively higher risks than investments undertaken together with larger partner companies. The SME promoters often lack resources - managerial and financial - in preparing for, implementing and starting up their projects.

**Findings and Analysis**

**Recent policy changes**

Denmark’s Act on International Development Cooperation dating back to 1971 has been revised in 2012. The act presents an enhanced focus on human rights and sustainable growth which henceforward constitute the foundation for Denmark’s development cooperation. Furthermore, the act states that Danish development cooperation aims to fight poverty, promote human rights, democracy, sustainable development, peace and stability in accordance with the UN treaty.

The Ministry of Foreign Affairs of Denmark 2011 Development Cooperation Strategy “The Right to a Better Life” seeks to fight poverty with human rights and economic growth. It sets the basis for an effective cooperation that aims to combat poverty and promote human rights. The strategy’s objectives are advanced through a human rights-based approach, with a specific focus on women’s rights, on the basis of flexible and mutually accountable partnerships (both with the public and the private sector), multilateral systems, civil society and new development partners and global foundations. Denmark aims to systematically strengthen capacity of public authorities, civil societies and rights holders, and work to strengthen the participation of least developed countries in the development of the international legal order. Green Growth is one of four long-term strategic priority areas in combating poverty and promoting human rights.

Described focus areas, tools and approaches for implementation of the priority area Growth and Employment in the Strategy for Denmark’s Development Cooperation.

Its starting is that poverty only can be defeated by robust and sustained economic growth, reaching all levels of society and empowering the individual to take charge of and improve her or his own life. Denmark will promote growth and employment through six focus areas:

1. Working towards increased free trade and developing countries better integration in the global economy,
2. Strengthening local frameworks supporting economic growth,
3. Promoting transfer of technology and innovative partnerships,
4. Increasing production and processing with focus on value-chain approaches,
5. Promoting development of a tax base to the benefit of the poorest, and
6. Contributing to safety nets for the most vulnerable.

Moreover, the strategic framework describes how to engage the Danish business community further in development efforts, including an outline for modernization of business instruments and the Industrialization Fund for developing countries (IFU).

The Minister for Foreign Affairs, Kristian Jensen, announced in December 2015 to cut aid and focus more on areas of trade and investment. Among other areas in which Denmark is targeting its support include reforms to improve the business environment and reduce barriers to trade and investment, sustainable investments and green growth.

The Government’s Priorities for the Danish Development Cooperation 2016–2019 aim to focus development efforts in areas where the poverty is significant, in which they have strategic interests and where it is seen that Denmark can best make a difference. Denmark will contribute to combating poverty through economic freedom, that is, development based on property law, free trade and private investments. Moreover, Denmark will promote market-based sustainable growth and employment in developing countries. In total, approximately DKK 545 million will be allocated to supporting sustainable growth in the priority countries in 2016. According to the recent Government’s Priorities, an integration of Danish trade and development initiatives is necessary, and Denmark’s strong private sector competences shall be incorporated into the development cooperation to a larger extent.

Quotes from The Government’s Priorities for the Danish Development Cooperation 2016–2019

- Sustainable growth, investments and trade are the road to development
- The government will work towards meeting the developing countries’ demands for trade, investments and technology in order to promote economic growth. It is about advancing the countries’ regulatory framework and fostering a sustainable business environment that can create employment and economic progress.
- Development cooperation cannot combat poverty alone. An active engagement from the private sector is crucial in solving the global challenges.
- The private sector must be engaged to a greater extent – not just through investments, but also by bringing the strong competences of the Danish private sector more into play, for instance in areas like water, energy, food production, and green growth. Development cooperation shall motivate and mobilize private sector investments. Using the Investment Fund for Developing Countries as a starting point, the government wishes to increase investments in development and create greater development results within sustainable growth and employment.
Quotes from The Government’s Priorities for the Danish Development Cooperation 2016–2019

- Stable business structures based on the rule of law and transparency are key to achieving sustainable growth, trade and private sector development.
- This also increases the foreign direct investments in the country. The governments in developing countries are responsible for building responsible regulatory frameworks for the business community. However, Denmark will contribute to improving the regulatory frameworks through cooperation with local public authorities among others. We will request that our priority countries promote good governance and increase investments in social and economic infrastructure.
- The business instruments in development cooperation must promote Danish companies’ engagements in development countries to the benefit of both the Danish companies and the private sector in the developing countries. The goal is to ensure that the strong Danish competences come into play and promote market-driven development. The government will enter into a dialogue with Danish businesses, civil society, financial institutions and philanthropic foundations in order to adjust and improve the business instruments.

Results of Evaluations

In 2014, the Danish Ministry of Foreign Affairs carried out an evaluation of the former business instrument Business to Business Programme (B2B). The evaluation by NCG/Devfin Advisers AB (2014) concluded that B2B and its successor Danida Business Partnerships have contributed to technology transfer and have been leveraging Danish companies to engage commercially in developing countries, but that the facilities in an overall perspective have not had sufficient impact on employment and sustainable growth in the countries. The evaluation also questioned the instrument’s compatibility with the EU state aid rules. Against this background, in November 2014 it was decided to place the Danida Business Partnerships facility on hold. The Evaluation concerns Danida’s Business-to-Business programme (B2B), which was implemented from 2006 to 2011. The B2B programme provided grant support of up to DKK 5 million to 445 partnerships between Danish companies in 19 countries. The total approved financial allocation for the B2B programme from 2006 to 2011 for the 19 countries was DKK 1,088 million.

The B2B Programme facilitated transfer of knowledge and technology to the local companies through well-functioning partnerships, resulting in improved performance as regards to company management, productivity, turnover, environmental management, and working environment. Generation of employment in the local companies – as well as upstream and downstream employment – was less than planned for. While the majority of B2B supported local companies achieved satisfactory results, the spill over effects to their surrounding local communities did not materialise to any significant extent – except in a very few cases – in consequence of less employment generated and limited diffusion of technology and knowhow. The socio-economic benefits to the local communities were thus less than anticipated and correspondingly the contribution to poverty reduction was less than warranted.

An evaluation study conducted by Hansen & Rand (2014) from University of Copenhagen for the Danish Ministry of Foreign Affairs and Danida, presents an economic analysis of Danish exports to 144 countries over the period from 1981 to 2010. The main result of the study is that Danish bilateral aid has a positive and statistically significant impact on Danish exports to the recipient countries. The authors use a common structural econometric model to demonstrate the knock-on effect in the form of increased export from Denmark to the partner countries. These formulations indicate that the estimated return in terms of dollars of increased exports per dollar of additional aid varies over time and across countries, and it also implies that the dollar return is small for Denmark’s main development cooperation partner countries simply because Danish export to these countries is small at the outset as they are poor
and distant from Denmark. The overall estimated average export return is about 30 cents per aid dollar, which is surprisingly close to the 29 cent estimated for the Netherlands and quite far from the 1.4 dollar estimated for Germany. The results of this Evaluation Study are however not useful as tools for country selection in the aid allocation decision. Second, although the export return is positive it is difficult to give a precise estimate of the size, both for individual countries and for country groups.

The Ministry of Foreign Affairs of Denmark/Danida (2016) commissioned a study on private capital for sustainable development. Reviewing experience with funds and investment vehicles in the fields of innovative finance and impact investing, the study is intended to inform the future engagement of Danida and other bilateral donor agencies in these fields. The main finding of the study is that more is known than ever before on how donors and DFIs can mobilise private sector investment for sustainable development. In particular, structured funds, result-based financing and guarantees, and early-stage and innovation funding all are being used to mitigate risks, structure deals and achieve stronger impacts at substantial scale with the capital of private equity funds, banks, insurance companies, foundations, pension funds, family offices, high-net-worth individuals, and corporations. Layered, structured funds, especially, can aggregate capital for larger-scale investments, using a ‘waterfall’ structure to offer opportunities for private and public investors with different risk, return and exit requirements.

New Danida private sector instruments

The government will further develop the specific Danida business programmes, to which DKK 100 million are allocated in 2016.

<table>
<thead>
<tr>
<th>Set of Danida Business instruments in 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Danida Business Finance offers subsidised loans to infrastructure projects in Danida priority countries.</td>
</tr>
<tr>
<td>• IFU SME Facility to promote small and medium-sized Danish enterprises in developing countries.</td>
</tr>
<tr>
<td>• Danida Business Explorer provides financial support to Danish companies interested in investigating a specific business opportunity in a developing country in Africa, Asia and Latin America, in order to meet development needs in the developing country.</td>
</tr>
<tr>
<td>• Danida Business Contracts provides contract opportunities for private actors in relation to the implementation of the Danish Development Cooperation.</td>
</tr>
</tbody>
</table>

Danida Business Finance

Danida Business Finance (DBF) funds major infrastructure projects which cannot be financed on market terms. This is done by offering interest-free loans, where interest and other financial costs are covered by development funds. The programme facilitates investment in crucial infrastructure, such as energy supply, and aims to contribute to creating a more enabling environment for sustainable growth and employment. Funding of climate-friendly and cleaner technology is a future priority. DB Finance is the successor of the mixed credit scheme. There were no significant changes to these instruments.
What Danida Business Finance offers

Danida Business Finance (DBF) offers subsidised loans to infrastructure projects in Danida priority countries. The projects must contribute to sustainable and development in the recipient country.

A typical loan has 10 years’ maturity and is issued in USD or EUR. The DBF-subsidy consists of up to three elements (see figure below):

- Payment of interest – in full or in part.
- Payment of the export credit premium and other financial costs.
- Cash grant to reduce the principal of the loan, if the above does not amount to the subsidy level required by the ruling OECD agreement. The grant element is 50% in the Least Developed Countries (LDC) and 35% in other countries.

The buyer/borrower repays the loan in equal, semi-annual instalments, normally starting six months after the commissioning of the project. The borrower will pay only a commitment and a management fee.

DBF offers support to three different types of projects:

- Large infrastructure projects
- Small industrial projects in close collaboration with the Investment Fund for Developing Countries (IFU)
- Sustainable lending facility for projects to be implemented by Danish suppliers/contractors

Danida has issued 15 guiding principles for fund structures in October 2015. The set comprise some of the main issues that should be addressed during the preparation and implementation of the fund structure interventions. Danida, is to an increasing extent, allocating development assistance through global, regional and national funds which directly or indirectly provide funding in the form of equity, loans, guarantees, and grants to specific purposes such as climate, infrastructure, health, agribusiness, Small and Medium Enterprises (SME) etc. Most of these funds - often referred to as challenge, impact and investment funds - are established to leverage donor capital with private capital to facilitate access to finance and address capital requiring global challenges. There are indications that this trend will continue in the future, and that Danida will be involved in an increasing number of fund structure arrangements in cooperation with other donors, Development Finance Institutions (DFI) and the private sector in order to promote specific investment activities in developing countries.

IFU SMV Faciliteten

Denmark’s Ministry for Foreign Affairs established this SME Facility to promote small and medium-sized Danish enterprises in developing countries. IFU manages this facility in cooperation with Danida. It has been operational from 1 March 2015 and thus has not submitted an Annual Report yet. The Evaluation is due in 2018.

The government wants the Danish SMEs to contribute more to sustainable growth and employment in developing countries and has therefore granted of 60 million DKK (EUR 8 million) over three years to promote the quality and sustainability of SME investment in developing countries.
The IFU SME Facility supports individual companies’ preparation and implementation of projects so that companies can get the necessary professional sparring and assistance in the early stages of the project. The facility serves as an integral part of IFU’s work with investment in developing countries.

IFU SMV Faciliteten can support the individual Danish company in the preparation and implementation of projects in developing countries. The support will complement the company’s own investment in commercially viable projects and can cover up to 50 percent of special expenses incurred within a maximum amount of DKK 1.5 million. The support is granted as a supplement to the company’s own investment and can only cover up to 50 per cent of the actual costs and 25 per cent of the total investment.

The advisory support and the hand-held guidance will target and strengthen the following, dividing the life-cycle of a project into two stages:

<table>
<thead>
<tr>
<th>Project Phase</th>
<th>Focused support and assistance (such as, but not limited to):</th>
</tr>
</thead>
<tbody>
<tr>
<td>Phase 1: Project development and appraisal</td>
<td>- Definition of the company’s strategic goals</td>
</tr>
<tr>
<td></td>
<td>- Mapping of comparative advantages/risks</td>
</tr>
<tr>
<td></td>
<td>- Improvement of business plans/feasibility studies and check of critical assumptions – definition of “must win battles”</td>
</tr>
<tr>
<td></td>
<td>- Financial exposure under various scenarios</td>
</tr>
<tr>
<td></td>
<td>- Organisational and managerial requirements/competences needed (for f.ex. marketing, communication, production/technical skills, finance, legal, HR, strategic management a.o.)</td>
</tr>
<tr>
<td></td>
<td>- Double check of important assumptions and conditions</td>
</tr>
<tr>
<td></td>
<td>- Determination and verification of “bank-ability”</td>
</tr>
<tr>
<td></td>
<td>- Definition of CSR initiatives</td>
</tr>
<tr>
<td>Phase 2: Initial start-up and operation</td>
<td>- Recruitment of management and other key personnel</td>
</tr>
<tr>
<td></td>
<td>- Required approvals, permissions, licenses, and other - Environmental requirements, unions, OHS issues</td>
</tr>
<tr>
<td></td>
<td>- Training plans for know-how transfer</td>
</tr>
<tr>
<td></td>
<td>- Implementation of CSR initiatives</td>
</tr>
<tr>
<td></td>
<td>- Implementation of systems for reporting re. management information, accounting, budgets, CSR status, and other</td>
</tr>
<tr>
<td></td>
<td>- Procedures for board work</td>
</tr>
<tr>
<td></td>
<td>- Identification of relevant Board members</td>
</tr>
<tr>
<td></td>
<td>- Reporting and monitoring of operations, accounts, CSR, etc.</td>
</tr>
<tr>
<td></td>
<td>- Strategic plans for further development</td>
</tr>
<tr>
<td></td>
<td>- Management of crisis and unforeseen events</td>
</tr>
</tbody>
</table>

Each project shall be appraised individually and the need for support will vary from case to case, and is dependent on the current life-cycle stage reached. Assistance may be provided partly by IFU, partly by external professionals.
The financial support eligible under the IFU SME Facility will come as follows:

<table>
<thead>
<tr>
<th>IFU SME Facility</th>
<th>Support per SME project max. DKK 1.5m (in two phases)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Phase 1</td>
<td>Max. DKK 750,000 – covering costs during project development and appraisal</td>
</tr>
<tr>
<td>Phase 2</td>
<td>Max. DKK 750,000 – covering costs during initial start-up and operations</td>
</tr>
</tbody>
</table>
| Eligible costs   | Cost coverage such as- salaries (long-term postings of external staff (internal salaries only in exceptional cases))  
|                  | - consulting services – including management support  
|                  | - travel and accommodation costs  
|                  | - CSR initiatives  
|                  | - legal consultancy and assistance  
|                  | - audit consultancy and assistance for a hands-on approach to call on resources for improving the preparation steps, operational management, strategic development, CSR initiatives, financial management, corporate governance a.o. during Phase 1 and 2. |
| Limits of the SME Facility support | Max. 25% of the total investment of the project  
|                                | Max. 50% of IFU’s investment in the project (share capital and/or loan)  
|                                | Coverage: max. 50% of eligible costs (see Chapter 4 – incl. auditor’s verification of incurred costs, reimbursement following completion of the actions supported)  
|                                | Only activities started after approval of the SME grant can receive support |

It is a condition that the project proposal must be IFU eligible. Approval of support under Phase 1 cannot take place until the project proposal and the Danish SME partner have received a Clearance in Principle (CIP) from IFU. Approval of support under Phase 2 cannot take place until a signed investment agreement (share capital, loan, guarantee) has been entered into with IFU. In the investment process time line, this is illustrated as follows:
Figure 1. IFU’s Investment process

IFU’s investment process, including SME facility

<table>
<thead>
<tr>
<th>CONTACT</th>
<th>APPRAISAL</th>
<th>AGREEMENT</th>
<th>OPERATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1–12 months)</td>
<td>4–8 years</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Elements appraised
- Background of partners
- Financial accounts of all partners
- Business idea and rationale
- Project country analysis
- Indicative financing structure
- Ownership structure
- CSR policies
- Need for Phase 1 SME grant for improvement of business plan, etc.

Additional elements appraised
- Full business plan
- Management & ownership
- 10 year financial modelling (profit & loss, balance sheet, cash flow)
- Sensitivity analyses
- Fulfilment of IFU success criteria inc. CSR
- Updated financial accounts of all partners
- Need for Phase 2 SME grant for management recruitment and training of key staff etc.

Activities
- Legal opinion
- Disbursement
- IFU representation on project company board
- Financial reporting
- CSR reporting
- Additional finance
- Exit

The following criteria for support apply:

<table>
<thead>
<tr>
<th><strong>IFU eligibility</strong></th>
<th>The IFU SME Facility is eligible for IFU’s investments according to its general investment mandate.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SME definition</strong></td>
<td>The definition of SMEs eligible for support follows the EU definition.</td>
</tr>
<tr>
<td><strong>Eligible host countries</strong></td>
<td>Eligible host countries must be on the OECD’s DAC list of development aid recipients.</td>
</tr>
<tr>
<td><strong>Eligible partnerships</strong></td>
<td>Eligible partnerships for the IFU SME Facility must as a minimum include one Danish SME. The investment target is the legal entity incorporated in the host country, for example being a subsidiary of the Danish partner or a joint venture between Danish and a local partner, either as an acquisition of an existing company, a turn-around or as a green field project.</td>
</tr>
<tr>
<td><strong>Eligible sectors</strong></td>
<td>SMEs working in all sectors – except hard liquor, gambling, tobacco, weapons and others following the IFU/EDFI’s exclusion list – can be supported.</td>
</tr>
<tr>
<td><strong>Eligible applicants</strong></td>
<td>The Danish SME partner and/or the project company</td>
</tr>
<tr>
<td><strong>Decision forum</strong></td>
<td>Based on applications (Phase 1 and 2 respectively) the appraisal of the support will be presented for approval to IFU’s Investment Committee (according to IFU’s normal governance structure).</td>
</tr>
<tr>
<td><strong>Conflicting support</strong></td>
<td>Conflicting Applicants receiving support from other programmes – such as f.ex. Danida support Business Explorer, NOPEF a.o. – covering the same objectives, scope and activities are not eligible for IFU SME Facility support.</td>
</tr>
<tr>
<td><strong>Time limits</strong></td>
<td>(due to the facility being a pilot project) Approval for Phase 1 and 2 applications: Not later than December 2017 Disbursement: Not later than December 2018</td>
</tr>
</tbody>
</table>

The new facility is a reaction to the EU *de minimis* “state aid” regulations (EC 2013, Commission Regulation 1407/2013, OJ L352/1, 24.12.2013), that were introduced in 2014. According to EU *de minimis rules*, support for the following sectors are limited: 1) Primary production of agricultural products (max. EUR 15,000), 2) fisheries and aquaculture (max. EUR 30,000) and 3) road freight transport (max. EUR 100,000). According to IFU, these rules are binding, but seen as difficult limitations, as many Danish business projects are in primary production.

**Other trade-related instruments and partnerships**

The *Global Green Growth Forum 3GF* [http://3gf.dk](http://3gf.dk) initiative has been established in Copenhagen as part of a ‘bottom-up’ movement and is a unique dialogue forum where new types of public-private partnerships can be developed. The purpose of 3GF is to contribute to and accelerate the transition to a green global economy by highlighting the potential for growth. 3GF has been set up as a global public-private partnership involving participants from the governments of Denmark, South Korea and Mexico, as well as a series of multinational corporations and international organisations. The Forum is a Danish initiative and not open for other European countries to join.

The *Trade Council* of the Ministry for Foreign Affairs of Denmark assists Danish companies through a number of free of charge services, custom-made solutions and subsidised programmes. In the Danish Embassies, it assists Danish companies in starting up and/or expanding their presence. The Trade Council has approximately 300 employees located at embassies, consulates general and trade commis-
sions in 60 countries around the globe, among them Vietnam. In 2013, Denmark became the first Nordic country to have a comprehensive partnership agreement with Vietnam.

The Danish Water Forum was established in 2002 by a broad range of stakeholders related to the Danish water sector with the aim to share knowledge amongst all actors in the Danish water sector. Furthermore the aim is to promote and expand the role of the Danish water sector at the international scene with an aim to promote Danish water expertise globally. DWF is open to all Danish organizations within water and related sectors such as environment, agriculture, and health.

Statement of the Danish Water Forum as example for business partnerships

<table>
<thead>
<tr>
<th>Knowledge, research and visibility of Danish solutions</th>
</tr>
</thead>
</table>

Danish Water Forum works to promote Danish and international research, development and innovation in the water sector. Our aim is to strengthen the Danish water agenda by contributing to Danish knowledge and skills in international water organizations and in international and European initiatives on water.

We promote knowledge sharing on water and international exposure of Danish water knowledge, promoting cooperation in research, development and innovation among stakeholders in the Danish water sector and by contributing to the visibility of the Danish water efforts as a mark of quality and efficiency.

Danish Water Forum is a network of Danish water organizations aiming at highlighting Danish water expertise and knowledge and facilitating concerted actions. DWF represents:

- Contractors and manufacturers
- Water companies and consultants
- Research institutions
- Organisations and Government authorities

With our activities we aim at:

- Strengthening Danish and international efforts in research, development and innovation
- Promoting knowledge sharing on national and global water challenges and solutions
- Strengthening the visibility of the Danish competence – a trademark of quality and efficiency.

Summary

Denmark has made a radical policy shift towards more business-driven development cooperation. The private sector is seen as a partner for policy-making rather than a beneficiary. There seems to be a broad consensus for the policy shift, with civil society, trade union and other interest groups support. The Government seeks active dialogue with all actors on the new policy.

The changes build on a decade long trend in Danish policy i.e. the business focus has been set before, the shift from aid to trade was guided smoothly also in the partner countries. The current abrupt change is due to budget cuts, which put an additional focus on the private sector.
The new Danish private sector instruments are streamlined, but many of them have been in place before. The mixed financing for infrastructure projects continues. The guiding principles for fund structures and for special funds are interesting, as they consider safeguard mechanisms.

Also the new study on impact of investing and innovative finance is important for financial options for the Sustainable Development Goals. The nexus of impact investing and blended finance holds considerable promise for mobilising and deploying private capital for sustainable development and for contributing in significant ways toward the achievement of the Sustainable Development Goals. While there are limits and complexities at this convergence point, there are also innovations and early successes that demonstrate not just potential but real, tangible results.

The IFU SME Facility is in the early pilot phase. It links SME partnerships with the perspective of upgrading their business to larger development finance cases. It implies a clear decision to concentrate on a few larger business cases.

3 The Netherlands

The Netherlands, together with Denmark, Norway and Sweden is historically among the top providers per capita of AFT in the world. Netherlands has increased its AFT labelled support, from USD 543 million average in 2006-2008 to around USD 737.3 million in 2013 (+35.8%).

After 2013 however, due to changing Government priorities, ODA in general has drastically decreased with approximately 25%, bringing the percentage for ODA down from 0.68% of GDP in 2013 to 0.55% in 2017. With the drastic decline of ODA funds, the Netherlands Government has decided to prioritise private sector development and trade related initiatives. Due to this AFT labelled ODA support has decreased only marginally in the past years and in addition the Netherlands has also allocated non-ODA budget for a new private sector development related facility and for trade promotion.

Most of Dutch AFT in the past years concentrated on around 25 countries, among them Ethiopia, Mozambique, Rwanda, Burundi, Uganda, South Sudan, Mali and Ghana. Most of its disbursed AFT goes to LDCs (USD 144.4 million, 2013), which has doubled since 2006-2008. Low and lower middle-income countries receive around USD 8.9 and 27.6 million respectively; but another important share goes through a non-specific country category (USD 552.1 million), which includes regional aid and unspecific bilateral aid. By category, a substantial share of AFT is disbursed to Building Productive Capacity (USD 496.4 million), which has increased by more than USD 150 million since 2009-2011, especially in agriculture, followed by economic infrastructure (USD 125 million) and trade policy and regulations (USD 115.9 million).

Changes in Netherland’s development policy and budget

2013 can be considered a turning point in Netherland’s policies on international cooperation, when Government published an important policy document: “A world to gain: A new agenda for Aid, Trade and Investment” (MFA Netherlands 2013). In this document the new foundations and directions for Dutch Development were presented. The main changes are:

1. Decrease of the budget for international development cooperation with 25%, due to changes in budget priorities of the Dutch Government and disappointing growth figures of the Dutch economy to which the ODA was tied;

2. Decrease of number of partner countries of the Dutch Government and closure of embassies and diplomatic representations of the Netherlands in a number of countries. The list of partner countries was decreased from 40 countries to 15 countries;
3. As the title of the policy document already clearly states, the focus on private sector development and international economic relation building was strongly increased and a number of new PSD instruments was introduced to this purpose.

In the new policy, the Netherlands now identifies three categories of countries for bilateral relations:

- **Mainly Aid relations** (conditions for development are lacking, conflict and post-conflict): Afghanistan, Burundi, Mali, the Palestine Territories, Rwanda, South Sudan and Yemen. Also regional approach is applied to address security issues: Africa Great lakes region and Central America;
- **Transitional relationships**: Bangladesh, Benin, Ethiopia, Ghana, Indonesia, Kenya, Mozambique and Uganda. Transitioning towards trade and investment;
- **Trade Relationships** (not only in developing world): Australia, Belgium, Brazil, Canada, China, Colombia, France, Germany, the Gulf States, India, Iraq, Japan, Malaysia, Mexico, Nigeria, Poland, Romania, Russia, Singapore, South Africa, South Korea, Turkey, the UK, Ukraine, the US and Vietnam.

The labelling of the countries in the overview above also shows that the new policy document does not separate the world between the developing and the developed. In the trade relationship category, a wide variety of international trade partners are identified. The countries highlighted in bold are countries that are still in the league of developing countries, but the majority of the other countries are high income countries. This last category also shows the interest of the Dutch Government in building and nurturing economic relations and international trade.

**Dutch Private Sector Development support modalities in developing countries**

The Netherlands’s portfolio of instruments and subsidy and finance modalities for private sector development and trade is very diverse.

The following modalities and specific instruments relevant to Private Sector Development can be identified:

**Bilateral Support: (only in aid relation and transition countries):**

The modality of Government-to-Government projects addressing AFT issues continues to exist.

**Multilateral Support of Dutch Government relevant to Private Sector Development and Trade:**

The support of the Dutch Government to multilateral partners has always been important and continues, though like in Finland at a smaller scale than before. The most important partners of the Netherlands in private sector development and trade are:

- IFC: the support to IFC is substantial and it is organised in the Netherlands IFC Partnership Programme;
- ILO: the Netherlands supports specific areas of work of ILO, particularly in child labour related issues;
- UNIDO;
- World Bank: International Development Association and International Bank for reconstruction and Development (IBRD);
- European Bank for Reconstruction and Development (IBRD)
- The Asian and African Development Banks
- The International Fund for Agriculture and Development
In this list, a considerable number of development banks feature. Technical Assistance support in private sector development focuses on IFC, ILO and UNIDO.

**Civil Society Organisations:**

The current subsidy framework for CSOs focuses on the support of alliance and partnerships in which the Ministry itself plays an active role and the participation of private sector organisations is particularly welcomed. The framework focuses on supporting international lobby and advocacy initiatives. Although the amount of resources have decreased drastically, the group of CSOs that is participating in this modalities includes the most relevant Dutch CSOs.

**Specific Private Sector and Trade related institutions supported in the Netherlands:**

The Ministry of Foreign Affairs has been supporting (and sometimes for a long time) a number of organisations and projects that more or less cover all relevant segments of private sector development actors and themes:

- **CBI:** The Centre for Promotion of Imports from Developing Countries is one of the oldest private sector development institutions in the Netherlands, established already in 1971. This organisation focuses on trade capacity development and promotion for partners and companies in developing countries. It does not limit its actions to imports in the Netherlands, but it focuses on Europe and also works outside European markets;

- **PUM:** The Exchange Programme for Senior Managers is also old and exists since 1979. It is a technical assistance facility that is implemented by VNO-NCW, the National Employer’s Federation of the Netherlands. In this project the private sector is an active partner in implementation.

- **DECP:** the Dutch Employer’s Cooperation Programme is more recent and is also implemented by VNO-NCW. This programme is directed to strengthening the capacities of employer’s organisations in developing countries;

- **IDH:** The institute for Sustainable Trade was established as an independent institution with special funding by the Ministry of Foreign Affairs. This institute works directly with private sector partners and particularly with larger Multinational Enterprises (MNEs) in developing international sustainable supply chains. This organisation applies a specific sector focus;

- **MVO Netherlands:** This is a branch organisation of Small and Medium Enterprises that want to focus on Responsible Entrepreneurship and CSR in trade and investment relations in developing countries. Also this organisation applies a specific approach on a number of sector in which Netherlands SMEs have specific experience and value added;

- **Agriterra:** This organisation is a network organisation of agricultural producer organisations in the Netherlands that provides technical support to producer organisations in developing countries. It is specifically targeting cooperative movements and producer associations in developing countries;

- **Solidaridad:** This is one of the oldest trade development CSO’s in the Netherlands and it has been at the base of the development of Fair Trade initiatives and organisations worldwide. Solidaridad has a specific focus on development and strengthening of international sustainable supply chains in a number of specific sectors (coffee, cocoa, cotton etc.). The support to this organisation is currently phased out.

All these subsidy frameworks, projects and partner relations are managed in the Department for Sustainable Economic Development in the Ministry of Foreign Affairs. This allows for the mix of different interventions to be seen as a coherent package of different expertise and stakeholders. In addition, many of the projects and organisations apply a strong sectoral focus related to specific Dutch expertise
and added value, but also based on a risk assessment of economic sectors with respect to environmental and social risks.

A comprehensive Sector Risk Assessment was carried out by KPMG in 2014 and priority risk sectors were identified that will be considered in the Ministry of Foreign Affair’s approach and initiatives in private sector development and trade in developing countries with a particular focus on SME activities. The priority sectors are: Building and Construction, Chemical sector; Retail; Energy; Financial Sector; Wholesale; Wood and paper; Agriculture and Horticulture; Metals and Electronics; Oil and Gas; Textile and Clothing; Food-ingredients (KPMG, 2014, p. 18).

A recent change (since 2015) in the portfolio of these private sector support programmes by the ministry is the fact that the Sustainable Economic Development Department has taken over the Subsidy framework for International Trade Union Cooperation from the Department for Civil Society Organisations. This development is a result of a long-term process of lobby by the Two Largest Trade Union Centrals in the Netherlands. The argument of the Trade Unions was that their work on decent work is extremely relevant for private sector development and the trade agenda. Their presence in the mix of different organisations mentioned above is particularly needed particularly to ensure that more checks and balances are built in private sector development approaches. The trade unions now also work more closely together with the employer’s federation in international development interventions to strengthen social dialogue processes and to ensure decent work principles and corporate social responsibility in business development initiatives.

**Dutch Finance Corporation for Developing Countries (FMO)**

The Netherland’s Government established FMO as a Development Finance Institution in 1970 and it holds the majority in FMO with 51% of the shares. The Dutch strategy to leverage funds and also to ensure that private sector operates as a partner in this development finance institution is to allow for maximum ownership of the Private Sector (Dutch private banks own 49%), without losing the control of this bank.

The FMO has developed into one of the largest development finance institutions in the EDFI network with an investment portfolio of EUR 9.2 billion spanning over 85 countries.

The Dutch Government holds control as a majority shareholder, but it also provides steering by using special risk coverage funds that are allocated to FMO. These are:

- Massif: fund for SME Development;
- IDF: Infrastructure Development Fund;
- AEF: Access to Energy Fund

A special facility, FOM (Facility for Emerging Markets), is a joint initiative from FMO and the Dutch Government. FOM provides medium- and long-term loans to companies or joint ventures in emerging markets that are majority owned or controlled by Dutch enterprises. In many cases, no appropriate commercial financing is available to these joint ventures and subsidiaries for the construction or expansion of a production plant or to buy new equipment. Also, tenors are often too short or require excessive security. These joint ventures and subsidiaries are enabled to strengthen their financial structure, by providing often unsecured or subordinated loans. As a result, companies are placed in a better position to attract working capital from local bank.
Private Sector Development and Trade Support Instruments (through RVO.NL)

A final set of instruments are finance facilities that are available for companies in the Netherlands and internationally:

- Clean cooking programme (cook stoves)
- Develop2build: infrastructure in water, food security
- DRIVE: Development Related Infrastructure Investment Vehicle
- Dutch Good Growth Fund: finance and insurance and investment funds in developing countries
- EnDev: Energising Development: energy sector
- Facility for Sustainable Entrepreneurship and Food Security
- G2G and K2K: Government to Government and Knowledge to Knowledge (exchange and cooperation between institutions) - Not as a stand-alone instrument
- NMTP: Netherlands Management Training Programme
- Partners for International Business (PIB): trade partnership development and economic diplomacy (trade missions)
- DHI: Subsidy facility for Demonstration Projects, Feasibility Studies and Preparation of investment studies

Most of these facilities provide finance to private companies that are more or less the same as in the commercial banking sector, but the Government provides guarantees to private banks to enable companies to acquire loans for their activities in developing countries and sometime these finance funds are used to provide direct loans. The amount of subsidy is almost zero, but the value of guarantees and sometimes, technical support for companies is high.

Most of the facilities are well used, but some are considered very complex and bureaucratic. Feedback from Dutch Embassies in Vietnam and Tanzania clearly show that the facility is more used in Vietnam than in Tanzania, where the facility is less relevant given the needs and capacity level of local partners.

The facilities are all presented on the website of the State Service for Entrepreneurial Netherlands (RVO) and there they are combined with the complete range of subsidies and finance possibilities that are available for Dutch companies. The RVO website and organisations function as a portal to guide companies to the right finance and subsidy facilities for their initiatives regardless of where they are implemented.

As indicated above, in the area of international cooperation, possibilities for subsidies have almost dried up, but there are still some facilities, such as the Eureka Facility, which provides subsidy for research and development for economic, societal and environmental challenges regardless of where they are implemented. This facility slightly resembles the innovation facilities managed by Tekes in Finland.

One old facility is often mentioned as one of the most effective in the previous decade:

The Private Sector Investment Programme (PSI) was available for Dutch and foreign companies entering into long-term cooperation with local partners in developing countries. The objectives of PSI are to promote sustainable economic development by boosting investment in significantly innovative projects in the private sector in developing countries. It aims to make a relevant positive contribution to self-reliance and poverty reduction by creating economic activity and jobs and raising income levels. This is achieved by providing companies with an opportunity to make an innovative investment. Netherlands Enterprise Agency administers PSI at the request of the Ministry of Foreign Affairs of The Netherlands.
Due to shifting approaches and decrease of budget, this facility does not exist anymore, but feedback from Tanzania, both from the Netherlands Embassy and local partner, indicates that the disappearance of the PSI facility might inhibit interesting business initiatives in the poorest developing countries or in conflict or post conflict countries.

**A final comment on the PSD facilities**

The Netherlands does not work with concessional loan facilities directly in Government-to-Government cooperation, but within support to development banks it accepts concessionality. None of the private sector loan facilities have elements of concessionality.

**Insights obtained from some relevant Private Sector Development Evaluations**

A policy evaluation of Dutch Private Sector Development interventions (2005-2012) was published in January 2014 (IOB 2014). This evaluation produced a number of insights that are also relevant for the Finnish private sector development cooperation instruments:

- The Ministry with its PSD-programmes addresses important bottlenecks in the development of private sector in developing countries (particularly in infrastructure sector);
- With the applied resources implementing organisations have financed and realised a great diversity of activities with substantial output and reasonable outreach in most cases;
- Little is known on the realisation of final objectives and therewith poverty-effects;
- In centrally coordinated programmes of the Ministry, the practice of implementations was often insufficiently focused on realising development relevance and on achieving effects in poverty reduction;
- Different programmes for Private Sector Development easily assume that support to PSD is additional to the market and this leads to a too optimistic assessment of effects;
- Netherlands support specialised instruments operate almost as stand-alone instruments. There is little mutual exchange. This does not contribute to effectiveness because in most cases reality and problems are complex;
- For coordination of PSD programmes at the ministry there is limited specialised staff-capacity available. The policy responsibility for outsourcing to autonomous PSD organisations and subsidy modalities was usually done with limited time and effort.

The most important recommendations of this evaluation are summarised below:

- More clarity on objectives and instruments related to the development level and capacity of receiving countries;
- More coordination to reach greater synergy;
- Professional account management and contracting services and functional administration.

**Evaluation of CBI (centre for promotion of imports from developing countries)**

An evaluation of CBI was done in 2015: Aided trade; an evaluation of the Centre for the Promotion of Imports from Developing Countries (2005-2012) (IOB, 2015). In this report the following main quite critical conclusions were presented:

- CBI has been successful in supporting exporting companies to overcome their lack of information on import markets. However, for many companies this was not sufficient to start exporting to Europe.
• The criteria for selecting target companies and target countries are not clear. Procedures for identifying and selecting participants were often unavailable. When available, these were not always followed. Larger well-development companies often received the most intensive and expensive treatment (“picking the winners or low-hanging fruit”). Companies obviously in need received less support.

• Business Support Organisation Development Project evaluations reveal that in general the interventions were relevant, but that there is hardly any information on their effectiveness.

• Available evidence does not point to an efficiently operating CBI. The right incentives were not in place.

• The Ministry of Foreign Affairs was not actively involved in CBI’s strategic choices and operations. As a result, the organisation operated relatively independently from the ministry. Since 2010, however, the Ministry of Foreign Affairs has become more prescriptive in what it expects from the organisation.

• CBI’s monitoring & evaluation system needs to be further improved, because, as it stands, it is difficult to monitor, steer and evaluate the programme effectively, and settle the budget.

Lessons learned were:

• Improved needs assessment should increase the number of tailor-made interventions
• Narrow the focus and reduce the number of eligible countries
• Enhancing sustainability by defining an exit strategy
• Enhance monitoring, evaluation, and steering of programme interventions
• More supervision from MFA
• Better cooperation and coordination
• Include more local expertise

**Evaluation of Effects of Aid on Dutch Exports**

An evaluation was realised on return on aid for Dutch exports. The report “Good things come to those who make them happen. Return on aid for Dutch exports” (IOB 2014) presents the following main conclusions:

Aid has positive income effects and enhances a country’s capacity to import. When developing and emerging countries have high growth rates and import more, many other countries profit from the situation as well. First of all, neighbouring countries will benefit from the opportunity to export more to their growing neighbours. Secondly, more distant countries, including donor countries, benefit from increased trade opportunities.

Donors benefit substantially from giving aid by increasing exports to recipient countries. Researchers from the Overseas Development Institute (ODI) concluded that European investments in development aid will be completely recovered by EU taxpayers and will lead to GDP gains within the EU. Estimates for specific countries confirm these results. According to researchers from the University of Gottingen, each euro of German bilateral aid produces a EUR 0.83 return in increased exports. Bilateral German aid triggered about USD 5-6 billion in additional exports in 2009 and about USD 6-8 billion additional exports in 2010. Estimates of the employment effects range from the creation of 64,000 jobs to 200,000 jobs. A report on Italy suggests that the effect on income gained from the provision bilateral aid is EUR 0.93 for each euro of aid.
The effects are greater in recipient countries with relatively high income levels. An explanation is these countries’ higher import capacity. The growth of exports to upper middle-income countries in Asia and Latin America also suggests that the dynamic effects of aid (due to habit formation and goodwill) are more important than the static effects (due to tied aid). Low- and lower middle-income countries are catching up. Rather than lagging behind, they are increasingly contributing to world economic growth. Given the high economic growth of low-income countries and increased exports to them, one would expect the effect of habit formation and goodwill to increase in these countries.

The value added for the Dutch economy is lower than the value of the exports. Companies import raw materials and semi-manufactures from other countries. On average, every euro spent on exports to low- and middle-income countries has an estimated value added for the Dutch economy of EUR 0.60. Therefore, on average the payback effect (return on aid) for the Dutch economy is about EUR 0.40–0.55 for each euro of bilateral aid. This corresponds to total exports of about EUR 1.5 billion, a value added of EUR 900 million and 15,000 jobs (for 2008-2009). In total, (all) exports to these countries generate about 350,000–400,000 jobs in the Netherlands.

As a result of the new world economic and financial crisis, the Netherlands decided in 2010 to cut aid budgets - the most severe cuts since development cooperation started to take off in the 1950s. Since 2010, budgets for development cooperation and exports to developing countries have been moving in opposite directions. As a result of the Dutch budgets cuts, the Dutch share in total (bilateral) official development assistance (ODA) is rapidly decreasing, even in the country’s 15 partner countries. In the short run, the Netherlands may continue to benefit from habit formation and goodwill effects, and exports to (former) partner countries may well continue to grow.

In the longer run, however, budget cuts may exert a negative effect, leading to a loss of these effects as the Netherlands becomes a minor player in the field of bilateral development cooperation. In the end, this may have a negative impact on Dutch economic interests.
EVALUATION

FINNISH AID FOR TRADE
2012–2015