

Evaluation

Finnish Concessional Aid Instrument



Evaluation report 2012:4

MINISTRY FOR FOREIGN AFFAIRS OF FINLAND

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PREFACE

The Finnish Concessional Credit development cooperation instrument was evaluated as part of the wider sustainable development and poverty umbrella of four evaluations. The other three evaluations have been published in 2010 and 2011. For a number of reasons, the preparation of the current report on concessional credits has taken longer than expected partly due to the necessity of shortening the original final draft of the team of experts to focus solely on the Finnish concessional credits.

The evaluation points well out the position of the concessional credit instrument in the interface of commercial and development interests and the question of tied versus non-tied aid. There are a number of observations and recommendations made by the evaluation group. At the point of publishing the report many of the observations are being taken care of.

Helsinki, 27.01.2011

Aira Päivöke
Director
Development Evaluation

ACRONYMS AND ABBREVIATIONS⁹⁾

CC	Concessional credit scheme (programme, instrument)
DAC	Development Assistance Committee (of OECD)
DFID	United Kingdom Department for International Development
EBRD	European Bank for Reconstruction and Development
Euro, €	Euro, currency of the European Union
EVA-11	Development evaluation of the Ministry for Foreign Affairs of Finland
HIV/AIDS	Human immunodeficiency virus / Acquired immunodeficiency
ICT	Information technology
IFC	International Finance Corporation (World Bank Group)
IRR	Internal rate of return
KEO-50	Unit for International Financial Institutions, Department for Development Policy of the Ministry for Foreign Affairs of Finland
LDC	Least developed country
MDG	Millennium development goal
M&E	Monitoring and evaluation
MEUR	Million euros
MFA	Ministry for Foreign Affairs of Finland
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
QAB	Quality assurance board of the Ministry for Foreign Affairs of Finland
TA	Technical assistance
TOR	Terms of reference
TTT	Technical cooperation funds (Finland)
US\$, USD	US Dollar, currency of the United States of America
WHO	World Health Organization

⁹⁾ The list has been compiled by EVA-11 on the basis of the text of the shortened and edited main report

Suomen korkotuki-instrumentin evaluointi

Tom von Weissenberg
tekstin editoija evaluointityöryhmän jäsenen ominaisuudessa

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TIIVISTELMÄ

Tämän evaluoinnin tavoite on arvioida, miten Suomen korkotukijärjestelmä on vuosina 2002–2009 edistänyt köyhyiden lieventämistä ja saavuttanut kestäviä, konkreettisia tuloksia, ja samalla arvioida sen puutteita. Evaluointi perustuu hankeasiakirjoihin, julkisesti saataviin asiakirjoihin, sisäisiin haastatteluihin ja evaluointeihin, valikoitujen sidosryhmien edustajien haastatteluihin ja vierailuun Vietnamsissa, missä tutustuttiin kenttätööhön. Tietojen avulla analysoitiin järjestelmän vahvuuksia ja heikkouksia siltä kannalta, miten se edistää läpileikkaavia teemoja. Analyysissa käytettiin seuraavia evaluointikriteerejä: tarkoituksenmukaisuus, tuloksellisuus, vaikutus ja kestävyys, tehokkuus, täydentävyys, johdonmukaisuus ja koordinointi sekä suomalainen lisäarvo.

Tärkein päätelmä on se, että järjestelmä saa huonot pisteet useimpien edellä mainittujen kriteerien kohdalla. Asianmukaisen seurannan ja evaluoinnin puuttuminen on merkittävä heikkous, ja kaikista korkotukihankkeista puuttuu indikaattorit lähtökohdan ja tulosten määrittämistä varten. Tiedot tuloksista ovat vähäisiä ja epäsäännöllisiä. Tuloksellisuus sai korkeimmat pisteet, tehokkuus arvioitiin hieman epätydyttäväksi ja tarkoituksenmukaisuus, vaikutus ja kestävyys sekä suomalainen lisäarvo epätydyttäväksi. Tuloksia selittäviä tekijöitä ovat luontainen jännite järjestelmän kaupallisten ja kehitystavoitteiden välillä, järjestelmän parantamiseksi aiemmissa evaluoinneissa esitettyjen suositusten puutteellinen noudattaminen sekä yhä suurempi ristiriita apuun perustuvan lähestymistavan ja parhaiden kansainvälisten käytäntöjen ja kumppanimaiden odotusten kanssa. Nämä tulokset eivät kuitenkaan peitä näkyvistä sitä tosiasiaa, että Suomen apu on yleensä tuloksellista.

Raportissa tarkastellaan kolmea vaihtoehtoa: järjestelmästä luopumista, sen tarkistamista aiempien suositusten toimeen panemisen ja avun sidonnaisuuden purkamisen avulla sekä järjestelmän säilyttämistä seurantaa ja evaluointia sekä menettelyjä parantaen. Raportissa esitetään, että ensimmäinen vaihtoehto olisi ihanteellinen.

Avainsanat: köyhyiden vähentäminen, kestävyys, kehitysvaikutus, korkotukiluotto, sidottu apu

Utvärdering av Finlands förmånliga stödkrediter

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ABSTRAKT

Syftet med denna utvärdering är att bedöma i vilken mån systemet för Finlands förmånliga stödkrediter under 2002–2009 bidragit till minskad fattigdom och hållbara konkreta resultat samt att bedöma systemets brister. Utvärderingen bygger på projektdokumentation, offentliga handlingar, interna granskningar och utvärderingar, intervjuer med utvalda intressenter och studiebesök till Vietnam. Utifrån denna information analyserades systemets styrkor och svagheter i främjandet av genomgående teman. Utvärderingskriterierna var relevans, effektivitet, effekt och hållbarhet, ändamålsenlighet, komplementaritet, samstämmighet, samordning och finländskt mervärde.

Den viktigaste slutsatsen är att systemet får dåligt betyg enligt de flesta av kriterierna. Bristen på ordentlig uppföljning och utvärdering (M&E) är en stor svaghet. Inget av projekten för förmånliga krediter hade indikatorer för fastställande av utgångsläget och resultaten. Informationen om utfallet är begränsad och oregelbunden. Av kriterierna får effektivitet högst betyg och ändamålsenlighet betyget nöjaktig medan relevans, effekt och hållbarhet samt finländskt mervärde får betyget hjälplig. Förklarande faktorer är bl.a. inbyggda spänningar mellan systemets kommersiella och utvecklingsmässiga mål, bristande uppföljning av rekommendationer i tidigare utvärderingar om hur systemet skulle kunna förbättras och att den bundna biståndsformen i ökande grad står i strid med bästa internationella praxis och partnerländernas förväntningar. Dessa observationer bör dock inte fördunkla det faktum att Finlands bistånd i allmänhet är effektivt.

I utvärderingsrapporten granskas tre alternativa lösningar: att avveckla systemet, förnya det genom implementering av tidigare rekommendationer och avbindning av stödet eller att behålla systemet, men förbättra M&E och förfarandena. Denna rapport förordar det första alternativet som den optimala lösningen.

Nyckelord: fattigdomsbekämpning, hållbarhet, utvecklingseffekt, förmånliga krediter, bundet bistånd

Evaluation of Finnish Concessional Credit Instrument

Tom von Weissenberg
editor in the capacity of a member of the evaluation team

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ABSTRACT

The objective of this evaluation is to assess how the Finnish Concessional Credit Scheme has contributed in 2002-2009 to poverty alleviation, achieved sustainable concrete results and also its shortcomings. Evaluation is based on project documentation; publically available documents; internal reviews and evaluations; interviews with select stakeholders and field visit to Vietnam. This information was used to analyse the strength and weaknesses of the scheme, in terms of promoting the cross-cutting themes. The following evaluation criteria, i.e. relevance, effectiveness, impact and sustainability, efficiency, complementarity, coherence and coordination and Finnish value-added, were used.

The main conclusion is that the scheme rates poorly on most the above criteria. Lack of proper monitoring and evaluation (M&E) is a major weakness and all concessional credit projects lack indicators for the determination of the baseline and the results. Information of outcomes is limited and irregular. Effectiveness is the highest rating criteria, efficiency is rated marginally unsatisfactory, relevance, impact and sustainability and Finnish value-added as unsatisfactory. Factors explaining the findings include inherent tension between the scheme's commercial and development objectives; lack of follow-up of recommendations of earlier evaluations aimed at improving the scheme, and that the tied aid approach is increasingly at odds with best international practice and expectations of partner countries. These findings do not obscure the fact that Finnish aid is generally effective.

The report examines three options i.e. winding-down the scheme, overhauling it with implementation of past recommendations and untying of aid, or maintaining the scheme with improvements in M&E and procedures. The report argues that the first option would be optimal.

Key words: poverty reduction, sustainability, development impact, concessional credit, tied aid

Aihe ja lähestymistapa

Tämä evaluointi on korkotukiluottojärjestelmän **viides evaluointi** siitä lähtien, kun se otettiin käyttöön vuonna 1987. 1990-luvulla tehtiin kolme evaluointia ja viimeisin vuonna 2003. Tässä työssä pyritään tarjoamaan riippumaton asiantuntijanäkemyksiä siitä, miten korkotukea käytettäessä on keskitytty kestävyys- ja etenkin ympäristön kestävyys- ja miten se on osaltaan edistänyt Suomen kehitys yhteistyöpolitiikan tärkeimmän tavoitteen, köyhyyden lieventämisen, saavuttamista. Evaluoinnin tarkoitus on tunnistaa konkreettisia tuloksia ja saavutuksia ottaen huomioon kestävä kehitys ja joukko tuloksiin liittyviä kriteerejä, kuten tehokkuus, tuloksellisuus jne. Tarkastelu kattaa hankkeet, jotka hyväksyttiin vuosina 2002–2009. **Lähestymistapa** on pitkälti selostettu evaluoinnin tehtävämäärityksessä ja metodologia hahmoteltu työsuunnitelmassa. Työssä tarkasteltiin 42:n lähinnä Kiinassa ja Vietnaminassa toteutetun hankkeen asiakirjoja analyysin tärkeimpänä osana. Tarkastelua täydennettiin menettelytapanalyysillä, aiemmista evaluoinneista saaduilla tiedoilla sekä muulla tiedolla.

Suomen korkotukiluottojärjestelmä

Korkotukiluottojärjestelmä on yksi Suomen kehitys yhteistyöpolitiikan välineistä. Korkotukiluottojen tarkoitus on tukea taloudellista ja sosiaalista kehitystä kehitysmaissa hyödyntämällä suomalaista kokemusta ja teknologiaa. Korkotukiluotto on kaupallinen vientiluotto lähinnä suomalaisille tuotteille, ja sitä tuetaan Suomen kehitys yhteistyöbudjetista maksettavalla korkotuella (julkinen kehitysapu, ODA) ja suomalaisen tai Euroopan unionin rahoituslaitoksen rahoituksella. Suomen virallinen vientiluottolaitos (Finnvera) antaa luottotakuun, ja luotosta tulee virallisesti tuettu vientiluotto, jota säätelevät OECD:n erityissäännöt. Korkotuesta ilmoitetaan OECD:n kehitys apukomitealle julkisena kehitys apuna. Korkotukiluotto edellyttää myös 30–50 %:n suomalaista sisältöä, ja siten luotosta tulee sidottua apua edellä mainittujen OECD:n sääntöjen puitteissa. Korkotukiluottojärjestelmä on ulkoasiainministeriön vastuulla osana kehitys politiikkaa ja -yhteistyötä, kun taas hankkeiden hallinnointi toteutetaan yhteistyössä Finnveran kanssa. Korkotukiluottopolitiikassa ja järjestelmän hallinnoinnissa noudatetaan Suomen kehitys yhteistyöpolitiikan ja Suomen korkotukiluottoja koskevan lainsäädännön yleisiä tavoitteita.

Aiempien evaluointien keskeiset tulokset ja kehitys apukomitean vertaisarvioinnit

Vuosina 1992 ja 1996 tehtyjen evaluointien tärkeimmät suositukset olivat: keskittyään enemmän hankkeiden kehitys vaikutukseen; tehostetaan seuranta ja evaluointia kentällä tapahtuvan valvonnan sekä parannetun asiakas raportoinnin avulla; kevennetään päätöksentekoa; toteutetaan perusteellisempia kenttä arviointeja; turvaututaan enemmän kansainvälisiin tarjous kilpailuihin ja kiinnitetään enemmän huomiota hinnoitteluun; harkitaan vaihtoehtoisia teknologioita ja tehdään kehitys maista hankituista tuotteista tukikelpoisia sidotun avun osuuden sisällä; vahvistetaan instituutioita; tarjotaan kumppanimaan toimijoille asianmukaista rahoitusta ja koulutusta; turvataan vara-

osien saaminen; parannetaan toimintavalmiuksia ja paikallisia hallinnointivalmiuksia. **Vuonna 1999 tehdyssä evaluoinnissa** todettiin, että useimmat aiemmin tunnisteista heikkouksista olivat edelleen ajankohtaisia, ja suositeltiin seuranta- ja evaluointimenettelyjen parantamista sekä kaikkien olennaisten asiakirjojen järjestelmällistä arkistointia. Lisäksi siinä suositeltiin ympäristöasioiden hallinnan vahvistamista. **Vuoden 2003 evaluoinnissa** korostettiin useita alueita, joilla havaittiin merkittäviä heikkouksia, joista monet oli tunnistettu jo aiemmissa evaluoinneissa. **Suomen kehitysavusta vuonna 2007 tehdyssä OECD:n kehitysapukomitean vertaisarvioinnissa** todettiin, että vastoin vuoden 2003 vertaisarvioinnin suositusta Suomi päätti jatkaa korkotukilainajärjestelmäänsä. Arvioinnissa suositeltiin myös ulkoasiainministeriön kehitysyhteistyörakenteiden uudelleenorganisointia, riittävien inhimillisten resurssien osoittamista ohjelmaan, evaluoinnin ja sisäisen tarkastuksen yksikön tiukkaa riippumattomuutta sekä järjestelmää korkotukiluottojen kehitysvaikutuksen evaluoimiseksi. Arvioinnissa todettiin, että sidonnaisuus oli purettu noin 90 %:sta Suomen apua, ja eräs toistuva suositus olikin korkotukiluottojärjestelmän sidonnaisuuden purkaminen. Näihin seikkoihin ei juurikaan ole puututtu, vaikka ulkoasiainministeriö onkin vahvistanut, että nyt on käynnissä prosessi monien aiempien suositusten täytäntöön panemiseksi.

Evaluoinnin tulokset

- **Seuranta ja evaluointi** ovat keskeisiä läpileikkaavia kysymyksiä. Korkotukiluottojärjestelmä ei tällä hetkellä sisällä parhaita käytäntöjä; indikaattoreita ja aiottuja tuloksia ei ole määritelty selkeästi, ne eivät ole mitattavissa eivätkä/tai osoitettavissa hankkeesta johtuviksi, eikä tuloksia seurata järjestelmällisesti. Tämä puute johtuu siitä, ettei järjestelmän menettelyjä noudateta.
- **Tarkoituksenmukaisuus.** Taloudellisen ja sosiaalisen kehityksen edistäminen ei yleensä näy hanketasolla. Korkotukihankkeissa kaupallinen painottuminen on usein huomattavampi kuin kehitys. Hankkeisiin osallistuu usein joitakin hallitustason toimijoita mutta harvoin paikallisyhteisöjä. Asiakirjoista ilmenee todisteita siitä, että nämä hankkeet ovat yleensä taloudellisesti kannattamattomia, ja siten ne näyttävät noudattavan OECD:n kehitysapukomitean vaatimuksia kirjaimellisesti. Erilaiset oletukset olisivat kuitenkin parantaneet elinkelpoisuutta pisteeseen, jossa hankkeiden OECD:n sääntöjen mukainen tukikelpoisuus saatettaisiin kyseenalaistaa. Korkotukihankkeissa ei ole otettu huomioon tasa-arvokysymyksiä, syrjäytyneitä ryhmiä tai HIV:tä/AIDS:ia; näiden kysymysten merkitystä hankkeiden kestävyuden kannalta ei voitu todeta. Korkotukiluottojen käyttäminen liian monilla sektoreilla on ristiriidassa kansainvälisten kehitysohjelmiin keskittyvien suuntausten kanssa. Yleisesti ottaen hankkeita ei näytetä alun perinkään suunnitellun köyhyyden vähentämiseksi. Korkotukiluottojärjestelmässä ei yleisesti ole realisoitu sen potentiaalia innovatiivisena työkaluna suomalaisen huipputaso teknologian hyödyntämiseksi ilmastonmuutoksen, puhtaan energian, tieto- ja viestintäteknikan tai metsätalouden kaltaisilla aloilla.
- **Tuloksellisuus.** Toteutettavuustutkimusten laatu on yleisesti riittämätön. Suhteellisen suuri osuus hankkeista on vaarassa jäädä jälkeen tavoitteistaan. Siitä huolimatta suurin osa hankkeista saavuttaa todennäköisesti välitavoitteensa; in-

vestoinnit toimivat tarkoitetulla tavalla ja edistävät hankkeen tavoitteita. Investointisuunnitelmat sisältävät usein alustavan budjetin varaosia ja kunnossapitovalmiuksia sekä vaatimatonta teknistä apua varten, mutta ennalta ehkäisevä kunnossapito edellyttää usein merkittäviä, toistuvasti saatavia taloudellisia resursseja. Taloudelliset rajoitukset saattavat johtaa varusteiden liian vähäiseen kunnossapitoon ja lyhentää niiden taloudellista käyttöaika. Suomalaisten viejien antama tuki kunnossapitoa ja käyttöä varten ei ole niin kattavaa kuin käyttäjät haluaisivat.

- **Vaikutus ja kestävyys.** Hankeasiakirjoissa ei yleensä keskitytä tukitoimen puitteiden logiikan kehittämiseen ihmisten nostamiseksi köyhyydestä, ja monien hankkeiden odotettu vaikutus köyhyyteen on heikko. Ympäristötekijöitä ei ole analysoitu huolellisesti, vaikka hankeasiakirjoista ilmenee ympäristön kestävyysteen kiinnitetyn jonkin verran huomiota. Korkotukihankkeissa on usein taloudelliseen kestävyteen liittyviä ongelmia, erityisesti, kun kalliita ja pitkälle kehitettyjä laitteita viedään maihin, joissa käyttöön ja kunnossapitoon osoitettavat taloudelliset ja henkilöstöresurssit ovat rajalliset. Taloudellisen kestävyuden ongelmia esiintyy useimmissa hankkeissa. Vaikutuksesta ei ole arvioinnin jälkeisiä todisteita. Monia järjestelmän puitteissa Vietnamin toteutettuja hankkeita käynnistettäessä suomalaisen viejän panos oli hallitseva; viejän huomion keskipisteessä on laitteiden toimittaminen eikä järjestelmän kehitystavoitteiden edistäminen. Terveyssektorilla sosiaalista vaikutusta rajoittavat heikot hallinnointijärjestelmät. Hankkeiden toimeenpano olisi voinut tarjota tilaisuuden parantaa vaikutusta köyhiin ja/tai puuttua sosiaaliin ja ympäristökysymyksiin. Joitakin hankkeita ei myöskään ole riittävästi perusteltu taloudellisella analyysillä, ja viivästykset hyväksymisessä saattavat radikaalisti muuttaa toisten hankkeiden perustelua.
- **Tehokkuus.** Monet korkotukihankkeista eivät näytä saavan aikaan tavoiteltua vaikutusta kustannustehokkaasti, osittain hankintaan liittyvän vähäisen kilpailun takia. Tietyt korkotukihankkeet ovat lisäksi melko monimutkaisia, mikä osaltaan pidentää prosesseja. Järjestelmän projektinhallintavalmiudet ovat rajalliset ulkoasiainministeriön pienen henkilöstön takia. Ministeriö turvautuu paljon konsultteihin ennakoarvioinneissa ja hankkeiden arvioinnissa. Huolimatta kalliiden konsulttien käytöstä arviointiasiakirjat ovat myös yleisesti pinnallisia ja toistensa kaltaisia; niissä kopioidaan muita vastaavanlaisia raportteja, erityisesti osissa, joissa käsitellään köyhyysvaikutusta tai sosiaalista kestävyttä, sukupuolikysymyksiä, HIV:tä/AIDS:ia ja heikossa asemassa olevia ryhmiä. Arviointiraportit ovat päätöksenteon kannalta keskeisiä asiakirjoja, joissa selostetaan hankkeita koskevia kapea-alaisia kysymyksiä. Niistä puuttuvat kuitenkin perusteelliset riippumattomat analyysit ja/tai tarpeellinen objektiivisuus, eikä niissä usein käsitellä tärkeitä kysymyksiä. Joidenkin arviointiraporttien antaman informaation mukaan kaupallisiin hankkeisiin saatetaan investoida liikaa, mikä vähentää kustannustehokkuutta. Muutamien hankkeiden käynnistysprosessi on tehoton; niiden valmistelusta toimeenpanoon menee jopa viisi vuotta. Ennako- tai jälkitarkastusten, seurannan ja ulkoisten tarkastusten vähäisyys ja/tai puuttuminen ovat muita seikkoja, jotka haittaavat tehokkuuden yksityiskohtaisempia arviointeja.

- **Täydentävyys, johdonmukaisuus ja koordinointi.** Hallituksen politiikkojen välillä ei ole huomattavaa epäjohdonmukaisuutta. Korkotukihankkeet muotoilaan pääosin erillisinä toimina, joilla ei ole lainkaan tai on vain vähäisiä yhteyksiä Suomen muihin tukitoimiin tai muihin avunantajien ja joita ei yleensä suunnitella näiden tukemiseksi. Hankkeet ovat usein toimituslähtöisiä, ja kannustimet laajempien kansallisten ja sektoripolitiikkojen huomioon ottamiseksi ovat minimaalisia. Hallitukset näyttävät osoittavan vain vähäisiä resursseja tukitoimien asianmukaisen koordinoinnin takaamiseen. Hankkeet hoidetaan julkisen sektorin sisällä, eikä tilaisuutta ottaa yksityinen sektori mukaan operaattoreina, urakoitsijoina tai investoijina harkita lainkaan. Parempi yhteistyö avunantajien kanssa olisi ehkä helpottanut tulosten seurannan ongelmaa, koska tällöin olisi voitu turvautua olemassa oleviin tiedonkeruujärjestelmiin. Mikään ei kerro suomalaisten korkotukiluottojen ja muiden avunantajien toimien koordinoinnista sektorilla. Koordinoinnin ja täydentävyyden puute tekee korkotukihankkeiden onnistumisesta hankalampaa. Muiden avunantajien kokemuksista otetaan vain vähän oppia, ja mahdollisuuksia yhdistää resursseja yhteistä teknistä apua ja yhteistä seurantaa ja evaluointia varten käytetään heikosti. Korkotukiluottojen ja muun julkisen kehitysavun väliset yhteydet ja koordinointi eivät näytä olevan vaikiintuneita, vaikka niiden hyödyntäminen toisi lisäarvoa ja keskinäistä täydentävyyttä. Korkotukiluottoprosessi takaa, että kehitysyhteistyöpolitiikan päätavoitteet näkyvät suurelta osin korkotukihankkeiden muodossa, mutta useimmissa tapauksissa tämä jää pinnalliseksi.
- Korkotukihankkeiden tuoma **suomalainen lisäarvo** vaikuttaa vähäiseltä. Käytännössä useimmat korkotukihankkeet ovat toimia, jotka eivät tarjoa suomalaiselle yksityissektorille innovatiivista tapaa edistää merkittävästi kehitystä. Lisäksi monet hankkeet ovat luonteeltaan vakiomallisia, eikä Suomesta hankittaviin pääomahyödykkeisiin liitetä mitään erityistä lisäarvoa. Joissakin tapauksissa edullisempia tai pienempimuotoisia vaihtoehtoja oli tarjolla, mutta hankkeen taustalla vaikutti vahvasti koroton luotto, mikä vähensi investoinnin rahoituskustannuksia mutta ei sen todellisia kustannuksia. Suomalainen teknologia saattaa olla ympäristön kannalta hyödyllistä, mutta suomalaisen teknologian valitsemisen vaikutus köyhyyteen sekä taloudellinen ja sosiaalinen kestävyys vaikuttavat melko vähäisiltä, eikä paremmuudesta muihin verrattuna ole saatu todisteita. Korkotukiluotoilla rahoitetaan Vietnamin liian monia sektoreita, mikä vaikeuttaa vahvan teknisen asiantuntijuuden kehittämistä kaikilla sektoreilla. Tämä vaikeuttaa prosessia, jossa varmistetaan, että suomalainen lisäarvo maksimoidaan ja että se edistää suotuisaa sosiaalista, taloudellista ja ympäristövaikutusta. Joidenkin sidosryhmien kanssa käydyt keskustelut antoivat ymmärtää, että Suomen tuen suuntaamiselle uudelleen on suuri kysyntä. Tämä näkyy Suomen Hainin-edustuston hiljattain tekemissä aloitteissa; edustusto on kehittänyt innovatiivisia tietotekniikka- ja tutkimusohjelmia yhteistyössä yksityissektorin ja yliopistojen kanssa. Viimeksi mainitut voisivat hyötyä korkotukiluottojärjestelmän tai Suomen avun muiden välineiden kautta saatavasta rahoituksesta.
- **Suomen köyhyyden vähentämistä koskevan tavoitteen edistäminen.** Suunnitelman mukaa instrumentti on potentiaalisesti yhdenmukainen Suomen

kehitysyhteistyöpolitiikan tavoitteen kanssa. Tätä yhteensovittamista ei kuitenkaan ole siirretty konkreettisiin hankesuunnitelmiin ja toimeenpanoon. Useimpien hankkeiden tukitoimilogiikassa ei keskitytä suoraan vaikutukseen köyhyyden vähentämiseen, ja jopa epäsuoria yhteyksiä on vaikea tunnistaa.

- **Budjetin vastaavuus päämäärien kanssa.** Yleensä investointien rahoitus on riittävä, mutta kumppanimaan toimijoiden rahoituksen saamisessa on ollut jonkin verran ongelmia. Samalla kun hankkeet määriteltiin yleensä kapea-alaisesti, arvioituun investointiohjelmaan osoitettu rahoitus näyttää riittävältä. Sekä ulkoasiainministeriön että tuensaajan budjettimäärärahat hankkeiden toteuttamiseen vaikuttavat riittämättömiltä niiden inhimillisten ja taloudellisten resurssien osalta, jotka järjestelmään on osoitettu sen tehokkuuden lisäämiseksi ja moitteettoman toiminnan takaamiseksi.
- **Merkittävimmät heikkoudet.** Korkotukiluottojärjestelmän neljä merkittävintä heikkoutta ovat: 1) rajoitetuista hankinnoista johtuva kilpailun puute (ks. laatikko 2, Hankintaprosessi), 2) ratkaisemattomat hallinnolliset ja toimeenpanoon liittyvät kysymykset, 3) heikko seuranta ja evaluointi, ja ennen kaikkea 4) vähäinen vaikutus kehitykseen ja köyhyyteen sekä heikko ympäristön ja sosiaalinen kestävyys.

Johtopäätökset

Suomen korkotukiluottojärjestelmä kärsii vakavista suunnitteluun ja toteutukseen liittyvistä epäkohdista, jotka estävät sitä olemasta tuloksellinen kehitysväline. Näin ollen korkotukiluottojärjestelmä on tullut ratkaisevaan pisteeseen. Riittämätön avoimuus ja järjestelmän kapea-alainen, erillinen luonne altistavat sen hallinnointiongelmille ja vähentävät sen tuloksellisuutta. Tiennäyttäjänä kehityksen tuloksellisuuden ja avun sidonnaisuuden purkamisen edistämiseksi Suomen pitäisi harkita vakavasti siirtymistä tuloksellisempaan välineeseen ja johtavan aseman ottamista korkotukiluottojärjestelmään sisällytetystä sidotusta avusta etäännyttäessä. Jälkimmäistä kehitysmaat pyytävät, ja myös kehitysapukomitean vertaisarvion Suomen apua koskevat suositukset tukevat ajatusta.

Evaluointiryhmä on tarkastellut eri vaihtoehtoja järjestelmän säilyttämisestä joidenkin muutosten jälkeen uusien välineiden kehittämiseen, ja päättelee, että korkotukiluottojärjestelmä on kehityksen näkökulmasta vanhentunut. Parhaana pidetty ratkaisu on suositella hallittua vetäytymistä järjestelmästä. Tehtävänmäärittäessä tämän evaluoinnin tarkoitus on kuitenkin myös tunnistaa korkotukiluottojärjestelmän konkreettisia tuloksia ja saavutuksia, jotta kokemuksista voidaan oppimia ja välinettä kehittää edelleen. Näin ollen suositukset sisältävät vaihtoehtoja. Näitä suositeltuja toimia on mukautettava siirtymävaiheessa nykyisestä järjestelmästä luovuttaessa.

Suosituks

Siitä huolimatta, että parhaana pidetty vaihtoehto on hallittu vetäytyminen korkotukiluottojärjestelmästä, on tarkasteltava edellä mainittuja tuloksia ja päätelmiä sekä kysymystä, joka koskee vastuuta ohjelmanhallinnasta lyhyellä ja keskipitkällä aikavälillä. Ulkoasiainministeriö saattaa joutua eturistiriitaan instituutiona, joka on vastuussa menettelyjen suunnittelusta ja niiden noudattamisen varmistamisesta. Ministeriössä oh-

jelmaan liittyy huomattava omistajuuden tunne, ja nykyisten järjestelyjen säilyttämistä puolletaan vahvasti. Järjestelmän historia ja evaluoinnin tulokset puhuvat kuitenkin vahvasti ohjelmien toimeenpanon ulkoistamisen puolesta.

Tämänhetkinen ristiriita politiikkojen ja toimeenpanon välillä on ilmeinen. Hankkeiden toimeenpano noudattaen tiukemmin politiikkoja ja ohjeita parantaisi tuloksia. Korkotukiluottojärjestelmän päivittäinen hallinnointi pitäisi siirtää jollekin jo olemassa olevalle järjestölle tai Suomen julkisen kehitysavun ytimeen. Resurssien osoittaminen järjestelmiin voitaisiin siten siirtää muille lupaaville ohjelmille, mahdollisesti Finnfundille. Toinen, vähemmän mieluisa vaihtoehto olisi sallia avoin tarjouskilpailuprosessi, joka kohdistettaisiin EU-maihin tai mieluiten kaikille hankkijoille, ja puuttua samalla edellä lueteltuihin merkittävimpiin heikkouksiin ja tässä ja aiemmissa evaluoinneissa korostettuihin erityiskysymyksiin.

Useimpia aiempien evaluointien keskeisistä suosituksista ei vielä ollut pantu täytäntöön tämän evaluoinnin ajankohtana. Aiempien suositusten tiukempi noudattaminen parantaisi selvästi hankkeiden tuloksia. Nämä haasteet kertovat tarpeesta ryhtyä tarkistamaan toimeenpanojärjestelyjä siten, että ulkoasiainministeriö keskittyy suhteellisen vahvoihin aloihin. Valitusta vaihtoehdosta riippumatta tarvitaan myös täydentäviä toimia, ja alla esitetään niistä kattava luettelo. Jotkin toimista saattavat olla merkityksellisempiä tietyn vaihtoehdon kohdalla, ja niitä, jotka eivät sitä ole, ei pitäisi asettaa etusijalle. Seuraavilla suosituksilla puututtaisiin osaan haasteista:

Hankeasiakirjojen laatu. Hankeasiakirjojen laadun pitäisi noudattaa paranteltua vakiomallia. Useimmat aiemmista arviointiraporteista on laatinut yhden konsulttiyrityksen johtama konsulttiryhmä, ja ne ovat olleet laadultaan riittämättömiä. Näiden toimeksiantojen kohdalla pitäisi käyttää avointa kansainvälistä tarjouskilpailuprosessia, jotta edistettäisiin riippumattomamman ja teknisesti luotettavan taloudellisen ja sosiaalisen analyysin käyttöä. Mikä tärkeintä, hanketta ei pidä hyväksyä, jos siitä puuttuu selkeä tulostatriisi ja lähtökohta indikaattoreita varten.

Korkotukiluottoa koskevan aineiston hallinta. Korkotuet muodostavat 4,5 % Suomen kaikesta julkisesta kehitysavusta ja noin 10 % Suomen kaikesta kahdenvälisestä julkisesta kehitysavusta. Tämä Suomen julkisten varojen huomattavaa kulutusta (ks. laatikko 3, Tilastolliset erot, taulukoissa 4–7) koskeva aineisto on saatava järjestykseen.

Taloudelliset ja inhimilliset resurssit. Järjestelmään sen tehokkuuden lisäämiseksi ja moitteettoman toiminnan takaamiseksi osoitetut inhimilliset ja taloudelliset resurssit ovat riittämättömät. Suurempien resurssien osoittaminen parantaisi tehokkuutta.

Varainhoito. Riippumatta siitä, säilytetäänkö korkotukiluotot, käyttöön pitäisi ottaa uusi tiedotus- ja tilivelvollisuusjärjestelmä. Sitä täydennetään järjestelmällisellä ja vuosittaisella tilintarkastuksella, jossa noudatetaan kansainvälisesti hyväksyttyä standardia ja joka koskee kaikkia meneillään olevia korkotukihankkeita.

Toimeenpanon jälkeinen seuranta. Yksi lisäsuositus koskee toimeenpanon jälkeisen seurannan parantamista; seuranta on edellytetty selkeästi politiikan suuntaviivoissa.

Lisävaihtoehtoja

Jos järjestelmä säilytetään siirtymäkauden ajan panemalla täytäntöön edellä mainitut suositukset, suositeltava vaihtoehto on a) hallittu vetäytyminen järjestelmästä ja toiseksi paras b) avun sidonnaisuuden purkaminen ja keskeneräisten kysymysten hoitaminen.

a) Hallittu vetäytyminen. Tällainen toimenpide tarkoittaisi, että korkotukiluottojärjestelmästä luovuttaisiin vuoden 2011 aikana ja harkittaisiin sen resurssien osoittamista uudelleen kauppaa tukevaan kehitysyhteistyöhön tai muihin apuohjelmiin. Tällaisen toimenpiteen toteuttaminen tarkoittaisi tietenkin, että olisi myös käsiteltävä siirtymävaiheen kysymyksiä, kuten mitä tehdä valmisteilla oleville hankkeille, ja saatava aikaan poliittinen yhteisymmärrys. Näistä syistä paras lähestymistapa olisi vaiheittainen: järjestelmä lakkautettaisiin hallitusti vuoden 2011 aikana, jolloin näitä kysymyksiä voitaisiin käsitellä, ja lisäksi – jos sidosryhmät pitävät sitä tarpeellisena – voitaisiin toteuttaa täydentävä evaluointi hankkeiden toimeenpanosta ja tuloksista. Lopullinen päätös järjestelmän lakkauttamisesta tehtäisiin vuonna 2012, ja se tulisi voimaan samana vuonna.

b) Avun sidonnaisuuden purkaminen ja keskeneräisten kysymysten hoitaminen. Ulkoasiainministeriö myöntää, että nyt on puututtava moniin järjestelmään liittyvistä, jo kaksi vuosikymmentä kestäneistä ongelmista, ja se on viime aikoina ryhtynyt työhön. Tämä muodostaa hyvän mutta riittämättömän lähtötilanteen, joka edellyttää vaadittujen muutosten täysimääräistä ja nopeaa toimeenpanoa sekä suomalaisen sisällön vaatimuksen täydellistä poistamista. Kaikesta huolimatta tällainenkaan lähestymistapa ei olisi paras mahdollinen siinä mielessä, että tarkistettu järjestelmä ei olisi yhtä tuloksellinen eikä vastaisi yhtä hyvin maiden kehitystarpeisiin kuin Suomen avun muut välineet.

Omfattning och tillvägagångsätt

Denna utvärdering är den **femte utvärderingen** av systemet för förmånliga krediter (CC) sedan det infördes 1987. Av de tidigare utvärderingarna genomfördes tre under 1990-talet och den senaste 2003. Den aktuella granskningen syftar till en oberoende expertbedömning av CC-instrumentets fokus på hållbarhet, i synnerhet miljömässig hållbarhet, och hur instrumentet bidragit till resultat när det gäller fattigdomsbekämpning, som är huvudmålet för Finlands utvecklingspolitik. Syftet med denna utvärdering är att identifiera konkreta resultat och framsteg utifrån kraven på hållbar utveckling och en serie kriterier som ändamålsenlighet, effektivitet osv. Granskningen omfattar projekt som godkänts under 2002–2009. **Tillvägagångssättet** anges till stor del i uppdragsvillkoren och metodiken beskrivs i den inledande rapporten. En stor del av analysarbetet handlade om granskning av 42 projektdokument om projekt i främst Kina och Vietnam som kompletterades med analyser av förfaranden, information från tidigare utvärderingar och andra bedömningar.

Finlands system för förmånliga krediter

CC-systemet utgör ett av Finlands utvecklingspolitiska instrument. CC syftar till att stödja ekonomisk och social utveckling i utvecklingsländerna genom att utnyttja finländsk erfarenhet och teknik. CC är kommersiella exportkrediter som i första hand avser finländska produkter och där en räntesubvention betalas ur Finlands anslag för utvecklingssamarbete (ODA). Finansieringen sker via finländska eller europeiska finansinstitut. En kreditgaranti ges av Finlands officiella exportkreditinstitut (Finnvera) och krediten blir en exportkredit som regleras av en särskild OECD-överenskommelse. Räntesubventionen rapporteras till OECD/DAC som ODA. Dessutom krävs ett finländskt innehåll på 30–50 %, vilket innebär att krediten utgör bundet bistånd enligt OECD:s regler. Utrikesministeriet (UM) ansvarar för CC-systemet som en del av utvecklingspolitiken och -samarbetet medan administrationen av projekten sker i samarbete med Finnvera. CC-riktlinjerna och administrationen motsvarar de allmänna målen för Finlands utvecklingspolitik och den finländska CC-lagstiftningen.

Centrala observationer i tidigare utvärderingar och DAC:s kollegiala granskning

Huvudrekommendationerna i **utvärderingarna 1992 och 1996** handlade om att fokusera mer på projektens utvecklingseffekt, förbättra uppföljningen och utvärderingen (M&E) genom övervakning på fältnivå och bättre kundrapportering, rationellare beslutsfattande, göra fler djupgående bedömningar på fältet, öka den internationella konkurrensutsättningen och fästa större vikt vid prissättningen, överväga alternativa teknikval och godkänna varor från utvecklingsländer som en del av det bundna stödet, stärka institutionerna, ge motparten tillräcklig finansiering och utbildning, se till att reservdelar tillhandahålls och förbättra den operativa och lokala ledningskapaciteten. I **utvärderingen 1999** konstaterades att merparten av de tidigare identifierade svagheterna fanns kvar. Utvärderingen rekommenderade förbättring av M&E-förfarandena,

systematisk arkivering av all relevant dokumentation och förstärkning av miljöledningen. **Utvärderingen 2003** lyfte fram flera områden med betydande svagheter, av vilka många redan identifierats i tidigare utvärderingar. I **DAC:s kollegiala granskning av Finlands utvecklingsbistånd 2007** anges att Finland har beslutat sig för att fortsätta med CC-systemet i strid med rekommendationerna i den kollegiala granskningen 2003. I DAC:s granskning gavs dessutom rekommendationer om en omorganisation av UM:s struktur för utvecklingssamarbete, allokering av tillräckliga personalresurser till programmet, strikt oberoende för UM:s enhet för utvärdering och intern revision och ett system för utvärdering av CC:s utvecklingseffekt. En annan återkommande rekommendation var fortsatt avbindning av CC-systemet i ljuset av att ca 90 % av Finlands bistånd är obundet. Dessa frågor är ännu till stor del obeaktade trots att UM har bekräftat att det finns en process för genomförande av många av de tidigare rekommendationerna.

Granskning av förmånliga krediter 2002–2009 – utvärderingsresultat

- Uppföljning och utvärdering är ett centralt genomgående tema. I CC-systemet tillämpas för tillfället inte bästa praxis: indikatorer och avsedda resultat är inte tydligt definierade, mätbara eller möjliga att hänföra till projekten, och resultatuppföljningen är osystematisk. Dessa brister beror på att förfarandena inte följs.
- Relevans. Främjande av den ekonomiska och sociala utvecklingen avspeglas i allmänhet inte på projektnivå. I CC-projekten sätts ofta större fokus på kommersiella aspekter än på utvecklingsaspekter. I projekten deltar ofta vissa delar av förvaltningen men mer sällan lokalsamhällen. Enligt fakta i dokumentationen är dessa projekt i allmänhet inte ekonomiskt bärkraftiga och förefaller därför överensstämma med OECD/DAC-kraven. Man skulle dock kunna göra andra antaganden där bärkraften förbättras så mycket att projektens godkännande enligt OECD-reglerna kan ifrågasättas. CC-projekten beaktar i allmänhet inte frågor som gäller jämställdhet, marginaliserade grupper eller hiv/aids. Det var inte möjligt att fastställa vilken relevans dessa frågor har för projektens hållbarhet. Inblandning av för många sektorer i CC strider mot den internationella trenden att fokusera på utvecklingsprogram. I allmänhet ser projekten inte ut att ha planerats med fattigdomsbekämpning som det främsta målet. Som helhet har CC-systemet inte realiserat dess potential som ett innovativt verktyg där man drar nytta av finländsk teknik i världsklass inom områden som klimatförändring, miljöteknik, ICT och skogsbruk.
- **Effektivitet.** Kvaliteten på genomförbarhetsstudierna är i allmänhet otillräcklig. Risker är att en relativt hög andel av projekten inte uppnår de avsedda målen. Förmodligen uppnår dock merparten av projekten delresultat genom att investeringarna fungerar ändamålsenligt och främjar projektmålen. Investeringsplanen inkluderar ofta en initial budget för reservdelar och underhåll samt begränsad teknisk assistans, men för förebyggande underhåll krävs ofta betydande och regelbundna ekonomiska resurser. Ekonomiska begränsningar kan leda till eftersatt underhåll av utrustningen och minska dess ekonomiska livslängd. De finländska exportörernas stöd till drift och underhåll har inte varit så omfattande som användarna önskat.

- **Effekt och hållbarhet.** Projektdokumentationen fokuserar i allmänhet inte på hur insatsramverkets logik kan utvecklas för att lyfta människor ur fattigdom, och i många projekt är den förväntade effekten på fattigdom liten. Miljöfaktorer har inte blivit tillräckligt noggrant analyserade trots att projektdokumentationen antyder ett visst fokus på miljömässig hållbarhet. CC-projekten berörs ofta av frågor som handlar om ekonomisk hållbarhet, särskilt när dyr och sofistikerad utrustning levereras till länder med begränsade ekonomiska resurser och personalresurser för drift och underhåll. Problem gällande ekonomisk hållbarhet finns i de flesta av projekten. Det saknas belägg för projektens effekter efter projektbedömningen. Vid starten av flera projekt i Vietnam innehades den dominerande rollen i många fall av finländska exportörer, som är inriktade på att leverera utrustning och inte på att främja systemets utvecklingsmål. På hälsovårdsområdet begränsas de sociala effekterna av svaga styrsystem. När projektet genomfördes skulle det ha funnits möjligheter att lindra effekterna för de fattiga och att beakta miljöfrågor och sociala frågor. Dessutom är vissa av projekten inte tillräckligt väl motiverade utifrån en ekonomisk analys medan förseningar i godkännandet kan leda till att berättigandet för andra projekt förändras drastiskt.
- **Ändamålsenlighet.** Många CC-projekt förefaller vara sådana där den avsedda effekten förmodligen inte kan produceras på ett kostnadseffektivt sätt, delvis på grund av begränsad konkurrensutsättning vid upphandlingen. Vissa CC-projekt är tämligen komplexa, vilket leder till utdragna processer. Kapaciteten för projektledning inom systemet begränsas fortfarande av UM:s små personalresurser. UM förlitar sig i hög grad på konsulter i samband med förhands- och projektbedömningar. Trots att dyra konsulter har anlåtats är projektbedömningsdokumenten i allmänhet ytliga och repeterande med kopierade delar från liknande rapporter, i synnerhet avsnitt om effekter på fattigdom och social hållbarhet, jämställdhetsfrågor, hiv/aids och förfördelade grupper. Projektbedömningsrapporterna är de centrala dokumenten i beslutsfattandet. De granskade rapporterna täcker smala projektfrågor, men saknar djupgående självständig analys och/eller nödvändig objektivitet, och viktiga frågor är ofta utelämnade. I vissa rapporter presenteras förslag som utgör potentiella överinvesteringar i kommersiella projekt, vilket minskar kostnadseffektiviteten. I några fall är beredningen ineffektiv och det kan ta upp till fem år innan genomförandet av projektet börjar. Andra saker som försvårar en mer detaljerad bedömning av projektets ändamålsenlighet är begränsade eller obefintliga för- och efterhandskontroller, uppföljningar och externa revisioner.
- **Komplementaritet, samstämmighet och samordning.** Det finns inga anmärkningsvärda brister i samstämmigheten med regeringens politik. CC-projekten utformas till stor del som isolerade insatser utan anknytning eller med begränsad anknytning till andra finländska insatser och andra givare. De är vanligtvis inte planerade för att stärka sådana samband. Projekten är ofta utbudsdrivna och incitamenten för att beakta den bredare politiska inriktningen på nationell nivå och sektorsnivå är minimala. Det ser ut som om regeringarna avsätter endast begränsade resurser för säkerställande av tillräcklig samordning av

insatserna. Projekten hanteras inom den offentliga sektorn och möjligheten att introducera den privata sektorn som aktörer, kreditgivare eller investerare beaktas inte. Problemet med resultatuppföljningen skulle kunna minskas genom bättre samverkan med givarna och användning av befintliga datainsamlingssystem. Det finns inga belägg för att Finlands CC samordnats med andra givares insatser inom sektorn. Bristen på samordning och komplementaritet gör det svårare att lyckas med CC-projekten. Man har dock i begränsad omfattning lärt av andra givares erfarenheter och utnyttjat möjligheter att sammanföra resurser för gemensam teknisk assistans (TA) och M&E. Kopplingen och samordningen mellan CC och andra ODA-insatser förefaller inte tillräckligt etablerad för att CC ska kunna skapa mervärde och ömsesidig komplementaritet. CC-processen säkerställer att huvudmålen för utvecklingspolitiken till stor del avspeglas i planeringen av CC-projekt, men i de flesta fall sker detta på ett ytligt sätt.

- **Finländskt mervärde** förefaller begränsat i CC-projekten. I praktiken utgör de flesta CC-projekten inte sådan verksamhet där den privata sektorn i Finland skulle få möjligheter att göra betydande utvecklingsinsatser. Vidare är många projekt av standardkaraktär och det finns inte något särskilt mervärde knutet till de investeringsvaror som förs ut från Finland. I vissa fall skulle det ha funnits billigare eller småskaligare alternativ, men den räntefria krediten verkar vara en stark drivkraft i projekten. Därmed minskar de finansiella kostnaderna, men inte de ekonomiska. Finländsk teknik kan ha gjort miljömässig nytta, men annars förefaller urvalet av finländsk teknik ha haft en ganska begränsad effekt på fattigdom och ekonomisk och social hållbarhet. Det finns inte heller några belägg för att den skulle ha varit överträffad. I Vietnam är CC-finansieringen utspridd på för många sektorer, vilket hämmar utvecklingen av hög teknisk expertis inom alla sektorer. Dessutom hämmas processen för maximering av finländskt mervärde och dess gynnsamma sociala, ekonomiska och miljömässiga effekter. Diskussioner med vissa intressenter tyder på att det finns starka önskemål om en nyorientering för det finländska stödet. Detta avspeglas i de initiativ som nyligen tagits av Finlands ambassad i Hanoi, som utvecklade innovativa program för informationsteknik (ICT) och forskning i samverkan med den privata sektorn och universitet som eventuellt kan dra nytta av finansiering genom systemet eller andra stödinstrument som Finland erbjuder.
- **Främjande av Finlands mål för fattigdomsbekämpning.** Instrumentets syfte är att huvudmålet för Finlands utvecklingspolitik ska kunna följas. Detta har dock inte omsatts i projektplaneringen och genomförandet. I de flesta fall fokuserar insatslogiken inte på fattigdomsbekämpning som en direkt effekt av projektet och de indirekta sambanden är inte heller enkla att fastställa.
- **Tillräcklig budget i förhållande till målen.** Instrumentet har vanligtvis haft tillräcklig finansiering, men det har funnits vissa svårigheter med att skaffa finansiering till motparten. Medan projekten i allmänhet definierats smalt förefaller finansieringen av de bedömda investeringsprogrammen ha varit tillräcklig. Däremot förefaller både UM:s och stödmottagarnas budgeterade medel för genomförande av projekten ha varit otillräckliga när det gäller personalresurser och ekonomiska resurser för att främja systemets ändamålsenlighet och säkerställa att det fungerar väl.

- **Huvudsakliga svagheter.** CC-systemets huvudsakliga svagheter är 1) bristande konkurrensutsättning på grund av begränsad upphandling (se ruta 2 Upphandlingsprocess), 2) olösta frågor kring administration och genomförande, 3) svag M&E och den mest betydande svagheten 4) begränsad utvecklingseffekt och effekt på fattigdom samt miljömässig och social hållbarhet.

Slutsatser

Finlands CC-system lider av allvarliga brister i planeringen och genomförandet som har lett till att det inte fungerar som ett effektivt utvecklingsinstrument. Därför står CC-systemet vid ett vägsکیل. Otillräcklig transparens och systemets isolerade karaktär väcker frågor om styrningen och minskar effektiviteten. Som ledare i arbetet för att främja effektivt utvecklingssamarbete och avbindning av bistånd borde Finland på allvar överväga en övergång till ett effektivare instrument och ställa sig i spetsen för utvecklingsländernas önskemål, som stärks i rekommendationerna i DAC:s kollegiala granskning, om att avskaffa det bundna bistånd som är inbyggt i CC-systemet.

Efter att ha undersökt olika alternativ, från att behålla systemet med vissa modifieringar till att utveckla nya instrument, drar denna utvärdering slutsatsen att CC-systemet har blivit föråldrat ur utvecklingssynpunkt. Den förordade lösningen är en avveckling av systemet under ordnade former. Enligt uppdragsvillkoren är dock syftet med denna utvärdering bl.a. att identifiera konkreta resultat och framsteg i CC-systemet för att kunna lära av tidigare erfarenheter i syfte att utveckla instrumentet. Därför innehåller rekommendationerna också alternativa åtgärder. Dessa bör vidtas under en övergångsperiod medan det nuvarande systemet avvecklas.

Rekommendationer

Oberoende av den förordade slutsatsen, en avveckling av CC-systemet under ordnade former, bör observationerna och slutsatserna ovan samt ledningsansvaret för programmet beaktas på kort och medellång sikt. UM står inför en potentiell intressekonflikt genom att ministeriets ansvar omfattar såväl utformningen av förfarandena som säkerställandet av att de följs. UM har en betydande grad av programägarskap och en stark preferens att behålla de nuvarande arrangemangen. Resultat och observationer i tidigare utvärderingar ger dock starka argument för att genomförandet av programmet utkontrakteras.

Den aktuella bristen på ett samband mellan politiken och genomförandet är uppenbar. Resultaten skulle kunna förbättras om politiken och riktlinjerna följs striktare vid genomförandet. Den dagliga administrationen av CC-systemet bör överföras till ett befintligt organ eller Finlands centrala ODA-ledning. Därmed skulle allokeringen av medel till systemet kunna överföras till andra lovande program, eventuellt till Finfund. Ett annat men mindre önskvärt alternativ vore att tillåta öppen konkurrensutsättning i upphandlingsprocessen, antingen för EU-länderna eller ännu hellre för alla leverantörer medan man beaktar de huvudsakliga svagheter som anges ovan och specifika frågor som denna och tidigare utvärderingar lyfter fram.

Merparten av de centrala rekommendationerna i tidigare utvärderingar hade ännu inte följts upp när denna utvärdering genomfördes. Striktare uppföljning av tidigare rekommendationer skulle leda till en klar förbättring av verksamhetens resultat. Dessa utmaningar indikerar att det behövs en översyn av arrangemangen för genomförandet, där UM bör fokusera på områden som är relativa styrkor hos ministeriet. Oavsett vilket alternativ som väljs behövs kompletterande åtgärder, och en täckande lista på sådana framläggs nedan. Vissa punkter kan vara mer relevanta för ett visst alternativt och de som inte är relevanta bör inte prioriteras. Vissa problem skulle kunna lösas genom följande rekommendationer:

Projektdokumentens kvalitet. Kvaliteten på projektdokumenterna bör överensstämma med en förbättrad standardmodell. Merparten av de tidigare projektbedömningsrapporterna har utarbetats av ett konsultteam under ledning av ett konsultbolag och kvaliteten på rapporterna har varit undermålig. Vid dessa uppdrag bör man tillämpa en öppen internationell upphandlingsprocess för att främja en mer oberoende och tekniskt sund analys av ekonomiska och sociala aspekter. Det viktigaste är dock att inget projekt godkänns utan att det har en tydlig resultatmatris och indikatorer för utgångsläget.

Hantering av CC-redovisningen. CC-subventionerna utgör 4,5 % av Finlands totala ODA och uppskattningsvis 10 % av Finlands bilaterala ODA. Redovisningen av dessa betydande utgifter (se ruta 3 Statistiska skillnader i tabellerna 4–7) som betalas ur Finlands offentliga medel bör ställas i ordning.

Ekonomiska resurser och personalresurser. De personalresurser och ekonomiska resurser som har allokerats till systemet är otillräckliga när det gäller att främja dess ändamålsenlighet och säkerställa att det fungerar väl. Allokering av mer resurser skulle förbättra ändamålsenligheten.

Ekonomisk förvaltning. Oavsett om CC behålls eller inte bör ett nytt informations- och ansvarighetssystem införas, kompletterat med en systematisk och årlig revision av alla pågående CC-projekt enligt internationellt accepterade normer.

Uppföljning efter genomförandet. En ytterligare rekommendation hänvisar till behovet att förbättra uppföljningen efter genomförandet, vilket är ett tydligt krav som uttrycks i de politiska riktlinjerna.

Ytterligare alternativ

Om systemet behålls under en övergångsperiod då rekommendationerna ovan implementeras är det förordade alternativet a) avveckling under ordnade former och det näst bästa b) avbindning av stöd och beaktande av olösta frågor.

a) Avveckling under ordnade former. Detta alternativ innefattar en avveckling av CC-systemet under 2011 och överväganden om att omfördela systemets resurser till handelsrelaterat bistånd eller andra biståndsprogram. En tydlig strävan mot detta mål innebär också att olika övergångsfrågor måste beaktas, t.ex. att hantera projekt som är under beredning och skapa politiskt samförstånd. Av dessa skäl vore det bästa tillvägagångssättet en stegvis strategi med ett ordnat avbrott i verksamheten under 2011, då inte bara dessa frågor kan beaktas utan då man också kan göra en kompletterande utvärdering av genomförandet av projekten och resultaten, om intressenterna anser

att detta är nödvändigt. Ett slutligt beslut om avveckling av systemet skulle kunna fattas 2012 och genomföras samma år.

b) Avbindning av stöd och beaktande av olösta frågor. UM har medgett att man bör ta itu med många av de problem som funnits kvar i systemet under två decennier och att man nyligen har börjat vidta åtgärder. Det här är en god men otillräcklig start, som också förutsätter ett snabbt genomförande av alla de förändringar som krävs, däribland avskaffandet av kravet på finländskt innehåll. Denna strategi är dock mindre optimal med tanke på att det reviderade systemet ändå inte blir lika effektivt och avpassat för att tillgodose ländernas utvecklingsbehov som Finlands övriga stödinstrument.

SUMMARY

Scope and approach

The present evaluation is the **fifth review** of the Concessional Credit (CC) scheme since it became operational in 1987. Three previous evaluations were undertaken during the 1990s and the most recent one dates back to 2003. The present review aims to provide an independent expert assessment of how the CC instrument has focused on sustainability, particularly environmental sustainability, and how it has contributed to results on the main goal of Finnish development policy, poverty alleviation. The purpose of this evaluation is to identify concrete results and achievements, with reference to sustainable development and a set of performance criteria, such as efficiency, effectiveness, etc. The review covers projects approved during 2002-2009. The **approach** is largely laid-out in its terms of reference and the methodology outlined in the Inception Report. The study reviewed 42 project documents implemented mostly in China and Vietnam as a major part of the analysis, complemented by analysis of procedures, information from previous evaluations, and other assessment.

The Finnish concessional credit scheme

The CC scheme is one of the instruments of Finnish development policy. The aim of CCs is to support the economic and social development of developing countries by making use of Finnish experience and technology. CC is a commercial export credit for mainly Finnish products, which is supported by an interest subsidy paid out of Finland's development cooperation budget (ODA) and financing by a Finnish or European financial institution. The official Finnish Export Credit Agency (Finnvera) provides a credit guarantee and the credit becomes an officially supported export credit, which is governed by the OECD special arrangements. The interest subsidy is reported to OECD/DAC as (ODA). CC also requires a Finnish content of 50%-30% and as such the credit becomes tied aid under the aforementioned OECD rules. The CC scheme is the responsibility of the Ministry for Foreign Affairs (MFA), as part of development policy and cooperation, while the administration of projects is executed in cooperation with Finnvera. The CC policy and administration responds to the general objectives of the Finnish development cooperation policy and the Finnish CC Legislation.

Key findings of previous evaluations and DAC peer reviews

The main recommendations of the **1992 and 1996 evaluations** were to put greater focus on developmental impact of projects; enhance monitoring and evaluation (M&E) through field supervision, and improved client's reporting; streamline decision-making; undertake more in-depth field appraisals; increase reliance on international competitive bidding, and greater attention to pricing; consider alternative technology options and make eligible goods procured from developing countries within the tied-aid portion; undertake institutional strengthening; provide adequate counterpart funding and training; make provisions for spare parts; improve operation and local management capacity. The **1999 evaluation** observes that most weaknesses identified earlier were still present and recommended improved procedures for M&E and

systematic filing of all relevant documentation and it recommended strengthening of the environmental management. The **2003 evaluation** highlighted several areas of significant weakness, many of which were already identified in previous evaluations. The **2007 DAC peer review of Finland's development aid** notes that, "contrary to the recommendation of the 2003 peer review, Finland decided to continue its CC scheme." The review further recommended reorganisation of the development co-operation structure in the MFA; devotion of adequate human resources to the programme; strict independence the Unit for Evaluation and Internal audit and system to evaluate the developmental impact of CCs. Recognizing that about 90% of Finnish aid is now untied, untying the CC scheme represented another recurring recommendation. These issues remain largely unaddressed, even though the MFA has confirmed that a process is now in place to implement many past recommendations.

Review of concessional credits 2002-2009 - Evaluation findings

- **Monitoring and evaluation** is a key cross-cutting issue. The CC scheme at present does not incorporate best practice: indicators and intended results are not clearly defined, measurable and/or attributable to the project, and results are not monitored systematically. This shortcoming is due to non-respect of the scheme's procedures.
- **Relevance.** The promotion of economic and social development is generally not reflected at project level. The development focus of CC projects is often less prominent than the commercial one. There is often participation of some elements of government in projects, but rarely of local communities. Documentation provides evidence that these projects are generally non-viable financially and therefore appears to comply with the letter of OECD/DAC requirements. However, different assumptions would have improved viability to the point their eligibility under OECD rules might be questioned. The CC projects have generally not considered the role of gender, marginalized group, or HIV/AIDS; the relevance of these issues on sustainability of projects could not be established. Involving CC in too many sectors is in contrast with international trends to focus on development programmes. In general the projects do not appear to have been designed to target poverty reduction in the first place. The CC scheme has not generally realized its potential as an innovative tool to avail Finnish world-class technology in areas such as climate change, clean energy, ICT or forestry.
- **Effectiveness.** The quality of feasibility studies is generally inadequate. A relatively high proportion of projects are at risk of not achieving their intended objectives. Nevertheless, the majority of projects are likely to achieve their intermediate results; investments operating as intended and contributing to project objectives. Investment plans often include an initial budget for spare parts and capacity for maintenance as well as narrow technical assistance, but preventive maintenance often requires significant recurrent financial resources. Financial constraints may lead to under-maintenance of equipment and shorten their economic life. Support for maintenance and operation from Finnish exporters is not as comprehensive as users would want.

- **Impact and sustainability.** Project documentation generally does not focus on developing the intervention framework logic for raising people from poverty, and expected impact on poverty of many projects is weak. Environmental factors have not been carefully analyzed, even though project documents indicate some attention to environmental sustainability. CC projects often face economic sustainability issues, particularly when expensive and sophisticated equipment is provided in countries with limited financial and staffing resources for operation and maintenance. Economic sustainability problems are present in most projects. There is no post-appraisal evidence of impact. Many of the projects in Vietnam under the scheme were initiated with a dominant input from the Finnish exporter, whose focus is in providing equipment and not on promoting the development objectives of the scheme. In the health sector, social impact is limited by weak governance systems. The implementation of the projects could have provided an opportunity to ameliorate the impact on the poor, and/or to address environmental and social issues. Finally, some projects are not sufficiently justified by economic analysis and delays in approval may radically change the rationale for others.
- **Efficiency.** Many CC projects do not appear likely to produce the intended impact in a cost-effective way, partly because of the limited competition in procurement. Certain CC projects are also quite complex, which contributes to prolonged processes. Project management capabilities of the scheme remain limited by the small number of staff in the MFA. The MFA relies heavily on consultants for the pre-assessment and the appraisal of projects. Despite the use of expensive consultants, appraisal documents are also generally superficial and repetitive, copying from other similar reports; particularly sections referring to poverty impact or social sustainability, gender issues, HIV/AIDS and disadvantaged groups. The appraisal reports are the key documents for decision-making providing coverage of narrow project issues, but lack in-depth independent analysis and/or necessary objectivity, and often fail to discuss important issues. In some cases, the appraisal reports present information that suggests potential over-investment in commercial projects that reduces cost-effectiveness. Finally, a few projects are processed inefficiently and take as much as 5 years or more from preparation to implementation. Limited and/or absent ex-ante or ex-post controls, monitoring and external audits are further issues that hamper more detailed assessments of efficiency.
- **Complementarity, coherence and coordination.** No notable incoherence within government policies. CC-projects are largely formulated as enclave activities with no or limited linkages to other Finnish interventions or other donors, and not typically designed to reinforce such. Projects are often supply-driven and the incentives to consider broader national and sector policies are minimal. Governments seem to devote only limited resources to ensure the adequate coordination of the interventions. Projects are operated within the public sector and the opportunity to bring in the private sector as operators, concessionaires or investors is not considered. Better collaboration with donors might have alleviated the problem of result monitoring by relying on existing

data gathering systems. There is no evidence of coordination between Finnish CCs and the activities of other donors in the sector. The lack of coordination and complementarity makes it more difficult for the CC-projects to be successful. There is limited learning from the experience of other donors or possibilities of teaming up resources for joint technical assistance (TA), and joint M&E. Links and coordination between CC and other ODA interventions do not seem well established to provide for CC value-added and mutual complementarity. The CC process ensures that the main goals of development policy are largely reflected in CC project design, but in most instances this remains superficial.

- **Finnish Value-Added** through CC projects appears limited. In practice most CC-projects are activities that do not provide an innovative way for the Finland private sector to make substantial contributions to development. Furthermore, many projects are standard in nature and there is no special value-added associated with the investment goods being sourced from Finland. In some cases, less expensive or smaller-scale alternatives were available but the project appeared strongly driven by the interest free credit, which decreased the financial cost of the investment but not its economic cost. Finnish technology may have been useful environmentally, but impact of the selection of Finnish technology on poverty, and economic and social sustainability appears quite limited and no evidence of superiority to others has been provided. Too many sectors are financed by CC in Vietnam, which hinders developing strong technical expertise in all sectors. This hinders the process of ensuring that the Finnish Value-added is maximized, and that it contributes to favourable social, economic and environmental impact. Discussions with some stakeholders suggest that there is a strong demand for a reorientation of Finnish support. This is reflected in recent initiatives of the Finnish Embassy in Hanoi, which has recently developed innovative ICT and research programmes in collaboration with the private sector and universities that could possibly benefit from the funding provided through the scheme, or other instruments of Finnish aid.
- **Contribution toward Finland's goal of poverty reduction.** As designed, the instrument is potentially in line with the objective of Finnish development policy. However, this alignment has not been translated into project design and implementation. The intervention logic of most of the projects does not focus on the direct impact on poverty reduction and even the indirect links are hard to establish.
- **Adequacy of budget to goals.** Usually the investments are sufficiently funded but there have been some difficulties in raising counterpart funding. While projects were generally defined narrowly, the funding provided to the investment program as appraised seems adequate. However, budget allocation for project implementation by both MFA and beneficiary seems insufficient regarding human and financial resources allocated to scheme to promote its efficiency and ensure it functions well.
- **Main weaknesses.** The CC scheme's four main weaknesses are: (1) lack of competitiveness due to restricted procurement (Ref is made to Box 2 Procure-

ment process), (2) unresolved administrative and implementation issues, (3) weak M&E, and most importantly (4) limited developmental and poverty impact and environmental and social sustainability.

Conclusions

The Finnish CC scheme suffers from serious design and implementation flaws that prevent it from being an effective instrument of development. Therefore, the CC Scheme is at a crossroad. Insufficient transparency and the narrow enclave nature of the scheme expose it to governance issue and diminish its effectiveness. As a leader in promoting development effectiveness and untying aid, Finland should give serious consideration to shifting to a more effective instrument and heading the calls of developing countries, further reinforced by the DAC Peer Review recommendations on Finnish aid, to move away from the tied aid built into the CC scheme.

Having examined options that range from maintaining the scheme with some changes to developing new instruments, the present evaluation concludes that the CC scheme has from the development standpoint, become obsolete. The preferred solution is to recommend an orderly exit from the scheme. However, in the terms of reference (TOR), the purpose of this evaluation includes the identification of concrete results and achievements of the CC scheme as lessons from past experience in order to develop the instrument further. Therefore, recommendations include options. Such recommended actions need to be adapted in the transitory period while winding down the present scheme.

Recommendations

Regardless of the preferred conclusion of orderly exit from the CC scheme, the above findings and conclusions and the issue of responsibility for program management in the short- to medium-term needs to be addressed. The MFA faces potential conflict of interest as the institution responsible for formulating procedures and ensuring adherence to these. There is a significant degree of ownership of the program within MFA and a strong preference to maintain current arrangements. Yet, the past record and evaluation findings strongly argue in favour of outsourcing program implementation.

The present disconnect between policies and implementation is obvious. Implementation of projects with stricter adherence to policies and guidelines would improve results. The daily management of the CC scheme should be moved to an existing agency or to the core of the Finnish ODA management. The allocation to the schemes could thus be transferred to other promising programs, possibly Finnfund. Another, less desirable, alternative would be to allow for an open competitive procurement process, to either EU countries or preferably to all suppliers, while addressing the main weaknesses listed above and specific issues highlighted in the present and past evaluations.

Most of the key recommendations of past evaluations had not yet been followed-up at the time this evaluation was undertaken. Stricter follow-up on earlier recommendations would clearly improve results of the undertakings. These challenges are indicative of the need to undertake an overhaul of the implementation arrangements, with MFA focusing on areas of comparative strength. Irrespective of the option chosen, complementary actions will be needed and a comprehensive list is provided below. Some of these may be more relevant to a certain choice and those that are not should not be given priority. The following recommendations would address part of the challenges:

Project document quality. The quality of project documents should follow an improved standard form. Most past appraisal reports have been carried out by team of consultants managed by one consultancy firm and have not been of sufficient quality. An open international tender process should be used for these assignments so as to encourage the use of a more independent and technically sound economic and social analysis. Most importantly, there should not be any approval of a project lacking a clear results matrix and baseline for indicators.

Management of CC records. CC subsidy is equivalent to 4.5% of all Finnish ODA and is approximately 10% of total Finnish bilateral ODA. The records of these significant expenditures (ref. is made to Box 3 Statistical differences in Tables 4 – 7) of Finnish public funds need to be put in order.

Financial and human resources. There are insufficient human and financial resources allocated to scheme to promote its efficiency and ensure it functions well. Allocation of more resources would improve efficiency.

Financial management. Irrespective of whether or not the CCs are retained, a new information and accountability system should be put in place, complemented by a systematic and annual financial audit according to internationally accepted norm of all ongoing CC projects.

Post-implementation monitoring. One additional recommendation refers to improvement of post-implementation monitoring which has been a clear requirement expressed in the policy guidelines.

Additional options

While maintaining the scheme over a transitory period by implementing above recommendations, the preferred option is (a) orderly exit, with (b) untying of aid and addressing outstanding issues as a second best.

(a) Orderly exit. Such a step would involve winding-down the CC scheme during 2011 and considering the reallocation of its resources to aid for trade or other aid programmes. Clearly pursuing such a step would involve addressing transitional issues, such as how to deal with the pipeline of projects under preparation, and building a political consensus. For these reasons, the best approach would be a gradual one involving an orderly suspension of the scheme during 2011, during which time not only can these issues be addressed, but also, if thought necessary by stakeholders, a complementary evaluation of project implementation and results could be undertaken. A final decision on closing the scheme would be taken in 2012, effective that year.

(b) Untying of aid and addressing outstanding issues. The MFA recognizes that many of the problems facing the scheme that have persisted for two decades should be dealt with now, and has recently begun to do so. This constitutes a good but insufficient start that requires full and rapid implementation of the required changes as well as totally eliminating the Finnish content requirement. Nevertheless, even such an approach would be sub-optimal in the sense that the revised scheme would not be as effective and responsive to development needs of countries as other instruments of Finnish aid.

Summary of key findings, conclusions and recommendations

Key Findings	Conclusions	Recommendations
I. Key Past Lessons Learnt		
<p>Past Evaluation. Five previous evaluations of CC scheme identified series of issues. Program impact and procedural issues covered.</p> <p>DAC Peer review. Positive appreciation of Finnish aid, issues with tied-aid.</p>	<p>Commercial goals stronger than development orientation. Project impact variable and in cases low. Health sector projects in China in particular suffer from performance issues. Implementation problems due to lack of specification and measurement of results, restricted procurement and shortcoming in records management and procedures. A large portion of recommendations outstanding for 10 to 20 years have not been addressed or being tackled quite recently. Tied aid results in inefficiency and goes against current trends and expectations of recipient countries.</p>	<p>Implement the relevant aspects of past recommendations, especially those proposed in the 2003 evaluation, pertaining to policy, instrument and administration. Take into account that depending on whether or not the decision to close the scheme is taken certain proposals may have become redundant. Strengthen scheme administration and M&E</p> <p>Untie the CC scheme.</p>
II. Evaluation Findings		
<p>Main weaknesses. Lack of competitiveness due to restricted procurement, unresolved administrative and implementation issues, weak M&E issues, limited developmental and poverty impact and environmental and social sustainability.</p>		
<p>Monitoring and Evaluation. The lowest possible score 7 is associated</p>	<p>This area has received very little attention since the scheme's in-</p>	<p>Retrofit all ongoing and recently completed projects with a re</p>

<p>with this cross-cutting criterion due to absence of reliable system.</p>	<p>ception, even though it is essential for measurement of achievements. Requirement Guidelines on M&E are not met, except in an ad-hoc manner. Monitoring has been infrequent and ad-hoc. Scheme compares poorly with other donor</p>	<p>sults matrix. Evaluate and assess past results. Ensure that all future projects include realistic, attributable and measurable results indicators. Provide financial resources for retrofitting exercise and regular M&E. Publish results.</p>
<p>Relevance. Rated 5. Relative strength relate to satisfactory alignment with client need. Major weaknesses include low community involvement, management and administration resources, and contributions to development.</p>	<p>The CC scheme is broadly aligned with Finnish and recipient country objectives. Not designed to target poverty alleviation. Some projects appear viable but might not be through different scaling. Cross-cutting issues not reflected.</p>	<p>Strengthen the analysis and upgrade quality of project documents, especially poverty alleviation and sustainability issues. Avoid funding potentially viable commercial projects and undertake sensitivity analysis to identify such projects. Promote participation of stakeholders and beneficiaries in project design and implementation.</p>
<p>Effectiveness. Highest criteria rating of 4, based on project design. About half the projects are estimated to meet planned objectives.</p>	<p>High number of projects at risk of not achieving intended results. Feasibility studies of varying quality and often out-of-date. Appraisal reports lack sufficient depth. Effectiveness well below that of other donors. Outputs likely to be delivered. Spare parts and TA for training on maintenance usually provided. Adequacy of financial resources for maintenance a major risk.</p>	<p>Undertake ex-post assessment of effectiveness of CC projects. Improve quality of project documents. Provide broader upstream and downstream TA, especially in the case of complex projects. Ensure presence of generated cash-flow or other budgetary allocations for maintenance.</p>
<p>Impact and Sustainability. Rating of 6. Gen-</p>	<p>Most intervention fail to establish even in-</p>	<p>Establish direct and indirect links to poverty in-</p>

<p>eral lack of poverty orientation. Uncertain economic impact and insufficient social and environment sustainability for many projects</p>	<p>direct link to poverty and many CC projects do not operate in poor areas. Community involvement low. Analysis of environmental impact too narrow and, in the case of hospitals, overlooks potentially harmful effects. A handful of projects may result in negative social impact. Lack of capacity also affects a few projects. Sustainability issues not sufficiently covered.</p>	<p>results chain. Reconsider whether CC projects should focus on richer areas of a country. Strengthen analysis of projects. Ensure environment and social analysis meets accepted international norms. Provide financing for abatement and mitigation of such costs, and for adequate compensation of affected groups.</p>
<p>Efficiency. Rating of 5. Main issues include restricted procurement and lack of adequate cost comparison.</p>	<p>Technical documents of poor quality. Limited procurement restricts competition and tends to increase costs. Few appraisal reports present credible evidence of cost minimization. Finnish content requirement may affect investment composition and scale. Long project preparation lowers efficiency. MFA process insufficiently efficient.</p>	<p>Open-up procurement to European or all suppliers. Undertake more detailed of cost comparisons. Decrease preparation delay to about a year.</p>
<p>Complementarity, Coherence and Coordination. Rating of 7, the worse amongst criteria. CC projects operate in silos and harmonization with donors partial and superficial.</p>	<p>Area within the control of the donor, but coordination with other donors, internal coherence with other parts of Finnish aid and policies is weak, and complementarity is low. Projects supply driven, formulated as enclave</p>	<p>Coordinate CC projects with other donors in the country/sector. Seek synergy and complementarity, including to fund needed TA and undertake M&E. Ensure alignment with sector policy. Reduce role of Finnish exporter to enhance development focus.</p>

	activities, no attempt to seek private participation in CC projects.	Promote private sector involvement where possible.
Finnish Value-Added. Rating of 6. There appears to be limited evidence of unique Finnish value-added or expertise provided through the scheme.	Value-added appears limited. The interest subsidy, which distorts costs, appears as the main driver of CC projects. Too many sectors funded, limiting maximized impact.	Consider alternatives to interest subsidy, such as matching grant.
Adequacy of budget. Budget allocation for human and financial resources.	Affects sustainability.	Consider increase of recipient's funding obligation.
Conflicting responsibilities of MFA. MFA helps prepare and approves projects, and oversees policies.	MFA specifies CC policies and is responsible for ensuring compliance. It is also involved in project preparation and implementation. The Ministry lacks resources to undertake all these tasks well and finds itself where these roles conflict.	MFA should focus on core responsibilities consisting of policy formulation and oversight, project approval, and timely availability of M&E results. During 2011, project preparation and implementation, as well as M&E, should be delegated to an existing suitable agency.
III. Options Going Forward		
Winding-down the scheme. Many like-minded donors have abandoned similar schemes.	The current scheme is ineffective and exposes Finland to reputational and fiduciary risks. Resources allocated to future CC projects could be transferred to other better performing instruments. Transition would need to be mapped carefully for projects already under preparations. Resistance from vested interested is probable	Decide and announce termination of scheme, effective 2012. Identify an existing program to which future CC resources could be reallocated. Drop any project for which a feasibility study has not been prepared. Set a time limit of one year to complete preparation and approval of other pending projects. Explain the reasons for

	and would need to be addressed.	terminating the scheme and build coalitions in favour of this decision.
Untying aid. Address main recommendation of DAC peer reviews and fully comply with the Accra forum agenda.	Tied aid limits competition, reduces transparency and affects efficiency, effectiveness, impact and sustainability.	Remove Finnish content requirement by opening process to all or, as second-best, European suppliers. Explore different model for scheme, whereby grant used to abate part of investment costs.
Enhancing current scheme. Known problems affect the scheme.	Past evaluations have identified many areas for improvement that have not yet been addressed.	Develop an action plan based on recommendations of past evaluations yet to be implemented. Discuss this plan with key stakeholders. Implement actions during 2011.
IV. Enhance current scheme with Institutional, Financial and Administrative Arrangements		
Funding M&E, preparation and Implementation. Funding of implementation and M&E insufficient.	Underfunding of activities, mitigation measure and TA at preparation and during implementation appear to be a cause of some of the identified problems and the absence of an acceptable M&E.	Allocate a budget of about 2 MEUR to administer the CC Scheme and implement actions proposed here, including those below. Include in CC projects funding adequate resources for M&E, TA and mitigation of environmental risks.
Electronic Archiving and posting of CC documents. Documents not readily available.	There is no systematic manual or electronic archiving of project documents and some documents are available at Embassies or can be provided by consultants, but not the MFA.	Establish a comprehensive list of CC projects and available documents. Improve records management at MFA by collecting and centralizing all relevant CC documents. Adopt transpar-

		ent process whereby key documents and results are publically available.
Review and retrofit recent projects, and improve quality of documentation. Project documentation is inadequate and of insufficient quality.	Results of ongoing and recently completed projects cannot be documented. Project documentation is substandard.	Retrofit a results matrix to all recent projects. Undertake detailed project assessment for 20 or so such projects. Develop new guidelines for improved appraisal documents. Consider how a different consultant tendering process would attract better and more diverse expertise.
Follow-up on study's recommendations.	Previous studies recommendations have not been acted upon or taken-up late and partially.	Inform stakeholders of outcome of study. Formulate an action plan based on recommendation. Start implementing action plan at the latest by mid-2011.
Improve Financial management. No annual audit of projects	There is not audit requirement of CC projects, and none undertaken.	Include audit requirements. Undertake at least one external audit of each completed project.

Notes: The rating score is from 1 to 7, from highly satisfactory to highly unsatisfactory/substandard. A score of 4 corresponds to mediocrity. Scores of 5 and 3 correspond to marginal ratings.

1 INTRODUCTION

1.1 Objective and purpose

This evaluation of the Finnish concessional aid instrument (CC) has been commissioned by the Development Evaluation (EVA-11) of the Ministry for Foreign Affairs (MFA) of Finland. This report presents the results of an independent evaluation of the implementation of the Finnish CC scheme, and how the CC it has contributed to results on the main goal of Finnish development policy, poverty alleviation. In the development policy of 2007 (MFA 2007a) three dimensions of sustainability are emphasised as a strong pre-requisite for economic development. The purpose of this evaluation is to identify concrete results and achievements under the Finnish CC scheme, with reference to sustainable development (especially environmental sustainability). The evaluation will identify the lessons from using the CC instrument during 2002-2009.

The intended audience for this evaluation includes decision-makers and planners of development cooperation and, in particular, the stakeholders of the development credit instrument, as well as those who follow other aspects of Finnish development cooperation.

1.2 Background

Finland has operated the CC scheme for 24 years with the aim of promoting development by availing the experience and technology possessed by Finnish companies to partner countries. The evaluation sets this into the context of the 2007 development policy as well as the earlier 200 and 2004 policies (MFA 2001; 2004; 2007a). It also, where relevant, integrates and updates the findings and recommendations of the 2003 (WaterPro Partners Ltd 2003) evaluation, as well as the 1999 (Osterbaan & Kajaste 1999), 1996 (Kyrklund, Sukselainen & Kirjasniemi 1996) and 1992 (van der Windt, Ruotsi & de la Rive Box 1992) evaluations (Chapter 4).

The present document sheds light on more recent experience. While bringing continuity with past work, this assessment differs from the previous ones in a number of ways. Past evaluations were relatively process oriented, whereas, the current one, as specified in the terms of reference (TOR; Annex 1), has a focus on the contributions of the scheme to intended results as well as the higher objectives of Finnish aid, namely poverty reduction and environmental sustainability. Furthermore, the context of this evaluation reflects current circumstances and the evolution of donor and Organisation for Economic Co-operation and Development (OECD) thinking on aid effectiveness and the role of concessional aid schemes therein. Key elements include:

- (a) improving developmental outcomes;
- (b) ensuring better harmonization and alignment as per the Paris Declaration and the Accra forum;
- (c) feedback provided in the context of the last two Development Co-operation Directorate/Development Assistance Committee (DCD/DAC, later abbreviated as DAC) peer reviews of Finnish aid and specific comments made in those reports; and
- (d) the evolution of similar programs funded by like-minded donors.

This evaluation was intended to be carried out in parallel with the wider umbrella synthesis of 2008-2010 evaluations (Caldecott J, Halonen M, Sorensen SE, Dugersuren S, Tommila P & Pathan A 2010), and two sub-evaluations, “Evaluation of Finnish Support to Forestry and Biological Resources” (Hardcastle P, Forbes A, Karani I, Tuominen K, Sandom J, Murtland R, Müller-plantenberg V & Davenport D 2010) and “Evaluation of Finnish Support to Energy Sector” (Fig 1; MFA 2011). The evaluation team worked closely with these parallel evaluation teams, for joint interviews and field visits and carried out a joint visit to Vietnam.

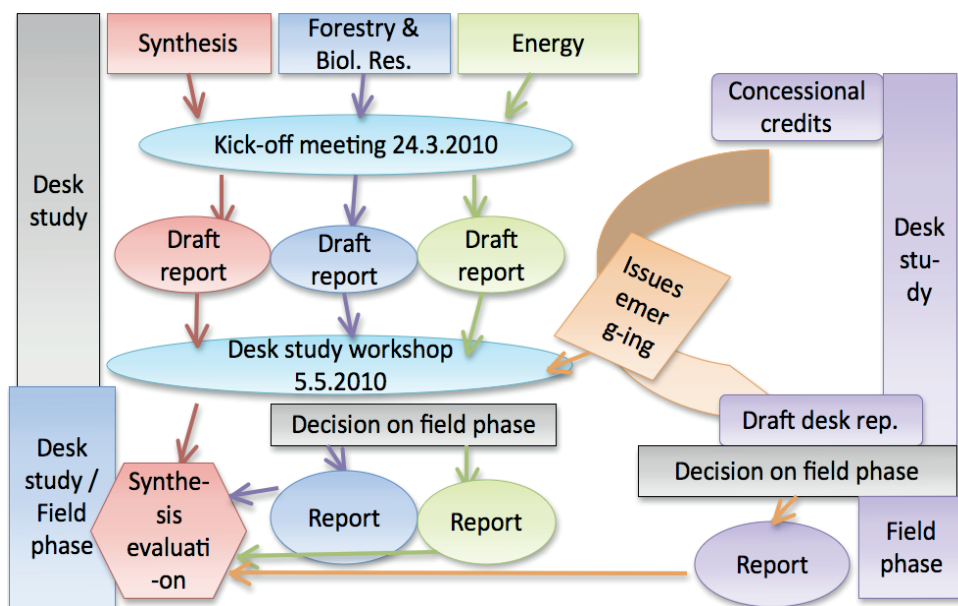


Figure 1 Evaluation of sustainability and poverty – Flow of the parallel evaluations.

1.3 Scope of this report and Information base

This report provides a systematic review of available project documentation and other relevant sources of information. This report benefits from the joint meetings with the parallel evaluation teams on Energy, Environment and Synthesis evaluation, and with MFA personnel. The regional meetings and the meetings on policy issues have helped understand how MFA operates and what its key priorities are.

In conformity with the TOR, the final report incorporates the findings of the desk study, results from the field study phase and further analysis and review. It also provides overall findings and recommendations. Project fiches prepared with the desk study will be a separate volume.

2 APPROACH AND METHODS

2.1 Information base

In contrast to the evaluation of 2003 (WaterPro Partners Ltd 2003), which was mainly qualitative, the approach of this report is also quantitative and required a strong focus in the collection of key data. The unavailability of certain documents, especially on project implementation and results, has proven to be a significant handicap. The best judgement and indirect information has been drawn on as needed. Consequently, the analysis includes some uncertainty and subjectivity, which nevertheless do not significantly affect the findings.

The documents were not always readily available. While it was a contractual obligation of the consultant to ensure all necessary material was collected, the team resources were directed towards collecting key internal project documentation from consultants carrying out the appraisal reports as well as from exporters. Other documents, such as sector studies and evaluations, were either provided by MFA or retrieved from public sources.

2.2 Evaluation approach, working methods and limitations

The evaluation approach follows the TOR issued by EVA-11 and the subsequent Inception Report. The evaluation approach is designed to answer the 10 evaluation questions of the TOR. All these 10 questions are included in the evaluation matrix (Annex 3) which follows the structure of evaluation matrixes in the other parallel evaluations, particularly that of Forestry and Biological resources (Hardcastle *et al* 2010). In the matrix, all the evaluation questions are classified according to the evaluation criteria of relevance, effectiveness, impact, sustainability, efficiency, coordination,

coherence, complementarity and Finnish value-added. We use these criteria following the standard EU guidelines and the Evaluation Guidelines of MFA (2007b).

To illustrate how our evaluation matrix works, the evaluation criteria of Relevance are addressed by answering the following questions:

- (i) How do the CCs reflect Finland's goals of poverty reduction?
- (ii) How have the three dimensions of sustainability been addressed in the intervention documents?
- (iii) Are the interventions responding to the objectives of the cooperating party?
- (iv) Did the respective budgetary appropriations adequately reflect the development goals of partner countries and Finland?
- (v) How is the society touched upon by the interventions taken into account in the strategic and project plans, and what have been the major modalities for the society to influence and affect the interventions and the decision-making on them?
- (vi) How does CC contribute to economic growth through Finnish imports?

A similar approach is followed for other criteria. Our evaluation approach requires methodically answering the evaluation questions using the information derived from project documentation, especially feasibility studies and appraisal reports as well as policy guidelines, relevant evaluations and studies undertaken during the period under review, and from interviews with key stakeholders in Finland and in Vietnam. This information is complemented by data on CC activities by like-minded countries.

The next critical questions concerns the filters used to address the evaluations questions. Three mutually inclusive approaches would be involved in gaining insight through the review of:

- (a) policies and procedures;
- (b) results on the ground; and
- (c) project documents.

The present evaluation incorporates all three approaches, even if limitations in the terms of relevance, time and resources, and information availability leads to greatest emphasis being given to the last area. Specifically, while important, procedures provide only a conceptual picture of scheme design and how it was intended to work. The main limitation of the approach is that practice may differ from design, as demonstrated for instance by weaknesses in monitoring and evaluation (M&E), narrow view on environmental impact, or what constitutes a commercially viable project. Similarly, lack of information on project implementation combined with approach for this review that is primarily based on a desk study limits the scope for a results-based approach. This can only partially be addressed through the field visit-because of the absence of a project monitoring system. Given these constraints, the evaluation had to draw on project documents, which allow an assessment on project design and concept, and on ex-ante likely poverty impact, but not on post implementation outcomes or impact. This approach is further detailed below.

2.3 Implementing the evaluation approach

2.3.1 Data collection.

The evaluation approach herein is fundamentally data driven and based on factual information included in project documents and other sources. Therefore, we have spent considerable effort in collecting data and project documentation for the period 2002-2009 as presented in Table 1. Worth attention is the fact that only one bidding review has been documented but not a single post-implementation evaluation has been found [editors note/TvW].

Table 1 Available project documentation.

	Grant MEUR	Feasi- bility study	Pre- assess- ment	Ap- praisal Report	Con- tract review	Bid- ding review	Post- imple- men- tation, evalu- ation
CHINA/Xinjiang Agricultural Project	4,45		x	x			
CHINA/Heilongjiang Agri-Equipment Project (Tractors)	4,44	x	x	x			
CHINA/Yanji Centralized Heating project	3,70	x	x	x			
GHANA/Rural electrifi- cation, Ashanti and east- ern regions	8,04		x	x	x		
HONDURAS/Rural Electrification project	5,16		x	x			
NAMIBIA/Hospital Project	8,57	x	x	x	x	x	
PHILIPPINES/Rehabili- tation of waterways	3,92	x	x	x	x		
SRI LANKA/Solar En- ergy for Development of Rural Education & Health	16,76	x	x	x			
SRI LANKA/Hospital Equipment project	11,38			x			
VIETNAM/Upgrading Electr. Suppl. (MiniScada)	9,35		x	x			
VIETNAM/Fire-fight- ing and Rescue Facilities Project	5,90			x	x		

VIETNAM/Hung Yen City Water Supply Development	4,51		x	x	x		
VIETNAM/Solar Energy project	4,22	x	x	x			
VIETNAM/Viet Tiep Hospital Project	3,98		x	x	x		
CHINA/Jinhua Children's Hospital Project	2,49		x	x			
CHINA/Datong Hospital Equipment Project	1,30		x	x			
CHINA/ Liuzhou Hospital Equipment project	1,29	x		x	x		
CHINA/Ningguon Hospital Equipment project	1,15	x	x	x			
CHINA/Fuzhou Hospital Equipment project	0,97	x	x	x			
CHINA/Gansu-Pingliang Cold Storage project	0,90						
CHINA/Zhangshu Hospital Equipment project	0,74		x	x			
CHINA/Alashan Hospital Equipment project	0,43		x	x			
CHINA/Guiyang GIS Project	1,66	x		x	x		
CHINA/Wuwei District Heating for Chennan District	2,75	x	x	x			
CHINA/Pucheng Central Heating Project	2,65	x	x	x	x		
CHINA/Baotou District Heating	2,12		x	x			
CHINA/Fuliyuan District Heating	1,99	x	x	x			
CHINA/Zhangye District Heating Project	1,87	x	x	x			
CHINA/Xuejiadao District Heating	1,83		x	x			
CHINA/Yanchua District Heating Project	1,62		x	x			
CHINA/Xiayang Centralized Heating project	1,54		x	x			
CHINA/Xinjiang Traktor project	2,62	x	x				

CHINA/Bole Tractor Delivery Project	2,20		x	x	x		
CHINA/Shihezi/Kuitun Agric. Development in Xinjiang	1,64			x	x		
CHINA/ Xinjiang/Shihezi Cold Store project	1,54		x	x			
CHINA/Heilongjiang Agriculture Project (Tractors)	0,99	x	x				
CHINA/Luochuan Cold Storage project	0,96		x	x			
CHINA/Fufeng Cold Storage project	0,78	x	x	x			
VIETNAM/Cao Bang Hospital Equipment Project	1,04	x	x	x			
VIETNAM/Thanh Hoa Hospital Equipment Project	2,67	x	x	x			
VIETNAM/Haiphong Storm Water project	1,17	x		x			
COSTA RICA/Hospital Equipment Project	12,90						

Source: Compiled by the evaluation team based on data from MFA list of projects.

The MFA provided a list of CCs granted during this period and information was collected from the MFA, exporters and consultants. The process has been time consuming, as the project documentation has not been archived systematically by MFA, consultants or exporters. As a result, only minimal information was found for many of the projects included in our evaluation period. Yet, a total of 20 feasibility studies and 38 appraisal reports were collected – these two document types are essential for our project review and analysis phase. At least some basic documentation has been compiled on most of the larger projects, (feasibility studies, pre-assessments, appraisals, contracts, reviews compiled of procurement, etc.) from various aforementioned sources. It appears that some of the missing project documents may be available at embassies or at the MFA unit for Development Financing Institutions. However, this information was received after the database for the study was finalized. Thus, these sources came to light too late to be included in the analysis. The difficulty in accessing information had also been highlighted by the previous evaluation (WaterPro Partners Ltd 2003). Project archiving does not appear to have been strengthened since then. There is awareness at the MFA of the severity of this problem. Some of this information has been collected in hard copies which have been scanned and archived electronically. An electronic copy of these records has been provided to MFA.

In addition to project specific documentation, scheme information has also been drawn from publicly available sources, such as MFA policies, guidelines and evaluations, OECD and donors' publications, statistics. Such sources are cited in end-notes.

2.3.2 Preparation of the evaluation matrix

The evaluation process of discovery is based on available information. This involves preparation of a comprehensive evaluation matrix that covers all the TOR evaluation questions. The questions have been grouped following the standard evaluation criteria to facilitate the logic and legibility. A standard fiche was prepared and applied on each project to harmonize the definition and understanding of each of the evaluation questions between the evaluation team members.

2.3.3 Project and programme analysis and evaluation

Project documentation was reviewed through the filter of the evaluation questions included in the evaluation matrix (Annex 3). The key documents relevant for this analysis are the project feasibility studies prepared by the project owners and the appraisal reports prepared by consultants under instructions of the MFA. Feasibility studies tend to reflect more closely the capability of the project owners; however, these documents were often not available. A detailed and careful project and programme analysis covered all project documentation that was collected. Information from available feasibility studies and appraisal reports was extracted through the lenses of the evaluation matrix and standard fiche. It is recognized that this process is limited by the scarcity of information on implementation and results measured against benchmarks.

Feasibility and appraisal studies were analysed together to draw conclusions on the quality and relevance of these documents within the CC system. This analysis included:

- (a) the careful reading of available document;
- (b) preparation of project fiches based on the format outlined in the inception report; (c) assessment and rating based on either the documentation or international best practice (for instance in the case of waste disposal by hospital);
- (c) drawing from sectoral or country information from other donors' strategic of project documents; and
- (d) the judgement of the evaluators based on their experience. Since there had been no systematic ex-post monitoring of projects, there was particular emphasis on reconstructing the intervention logic (or chain of outcomes) in key project documentation.

All projects were allocated to team members for analysis. To ensure consistency and to triangulate the results amongst the team, members followed the same process and completed the same standard project fiche. Given the limited availability of quantitative data, expert judgement based on team's expertise and other sources had to be used to enhance the findings, especially at the level of analyzing the CC projects and

preparing the project fiches. The robustness of these assessments was subsequently tested through the Vietnam field visit and comparison with other documents (evaluations and sector studies). Nevertheless, for prudence, many statements are expressed in a conditional way and excessive specificity is avoided – for instance, we talk of some projects (meaning a minority) as opposed to giving an exact statistics. The outcome of this analysis is presented in Chapter 5.

2.3.4 Field analysis

Given the absence of post-appraisal project reports and evaluation benchmarks it was decided that it would be best to concentrate all the field resources on a single country, Vietnam, so as to crosscheck and validate the key findings of the desk study phase. The desk study phase provided strong evidence on the project design process and how development priorities are incorporated into project design, as well as evidence on the efficiency of the processes and systems to manage CCs -including the state of management information systems and M&E. The field study focused on learning practical lessons on possible ways to enhance M&E systems of the CC scheme, on how other donors manage similar programmes (to support development and local stakeholder and community driven project design), and in exploring ways to simplify administrative processes (particularly from the point of view of the partner government. The findings of the field mission are integrated within Chapter 5.

2.3.5 Synthesis of the Desk and the Field phase

This report incorporates both findings of the desk and the field phase and draws some practical lessons on how to enhance the effectiveness and impact of the CC instrument. In addition, it addresses a handful of program level questions that could only be tackled following the field visit. It also includes evidence on how like-minded donors implement CC, on OECD best practice and how CC fit within other Finnish development instruments. The report sets up the context with analysis of pre-2007 development policies. It covers poverty reduction, sustainability and cross-cutting issues, including gender, HIV/AIDS and vulnerable groups, as well as M&E.

3 CONTEXT

3.1 Description of the Finnish concessional credit scheme

3.1.1 Description of the scheme and the procedures

The aim of CCs is to support the economic and social development of developing countries by making use of the experience and technology possessed by Finnish businesses. It is one of the instruments of Finnish development policy, part of the Finnish official development aid (ODA) and a mechanism for financing Finnish exports to

developing countries. The Finnish CC is a commercial export credit (a buyer's credit) for mainly Finnish products, which is supported by an interest subsidy and financed by a Finnish or European financial institution. The interest subsidy is paid out of Finland's ODA budget, and therefore, the recipient of the credit pays no interest.

The scheme combines the provision of export credits from commercial banks with the provision of interest subsidies from official development assistance. The "Arrangement" must follow OECD special arrangements (i.e. OECD 2010). The interest subsidy is reported to OECD/DAC as ODA. CCs require 50%-30% of Finnish component, and as such the credit becomes tied aid under the rules of the arrangement. The credit guarantee is provided by Finnvera plc, the official Export Credit Agency for Finland.

The CC Scheme is the responsibility of the MFA, as part of Finland's development policy. The MFA has the final responsibility for the decisions on the CC and it makes the decision for granting the interest subsidy. The administration of projects is executed in cooperation with Finnvera, which provides guarantee for the export credit (MFA 2009, 3). Finnish banks or other credit institutions operating in the European Economic Area can act as lenders. These banks extend CC loan and are the beneficiaries of the Finnvera guarantee. The buyer's bank is the bank in the developing country that is the borrower for the CC loan. Usually this is a state-owned bank that on-lends to the buyer.

CC policy and administration responds to:

- OECD Arrangement on Guidelines for Officially Supported Export Credits (Arrangement) that apply to officially supported export credits;
- General objectives of the Finnish development cooperation policy;
- Finnish CC Legislation (mainly for administration).

3.1.2 Finnish concessional credit legislation

The Finnish CC scheme was established in 1986, and the related legislation came into force on 1 January 1987. The present legislation concerning the CC scheme came into force in January 2001. The legislation codifies the roles and responsibilities of the stakeholders as well as describes the key procedures that the CCs need to follow. It establishes the role of Finnvera in processing the application for a CC guarantee (assessing the creditworthiness of country concerned and borrower) and of the MFA assessing the development impacts of the projects. The MFA approves the CC application, and the loan agreement is concluded between the lending bank and the borrower. The Act on Concessional Credits to Developing Countries, as well as other regulations relating to CCs, has to be followed.

The new policy for CCs was approved in 2005 (MFA 2005) and follows the recommendations of the 2004 Government Resolution –which stated the need that CCs follow OECD rules of being granted only to projects that are not viable commercially and to improve their effectiveness by allowing TA funding for planning and procurement, and compatibility with the recipient poverty reduction strategy. It also introduced the concept of Finnish interest to replace the concept of domestic com-

ponent and allowing a reduction to 30% in some cases (MFA 2004). A new policy on CCs was approved in 2005 and Finland's use of CCs is in line with OECD rules, but a system of ex-post evaluation of the developmental impact of these credits should be put in place. The latter was fully in line with a recurring key recommendation of past evaluations. The current conditions of the Finnish CCs are thus partially based on the OECD Arrangement guiding the lenders and partially on the national regulations of the MFA and on the guarantee policies of Finnvera.

3.1.3 Key conditions of the concessional credits

These include:

- The minimum domestic interest (previously content) of the contract is 50%. However, this Finnish interest requirement can be 30%-50% if the project represents a business sector in which companies can offer know-how and technology that particularly benefit the partner country or the project is located in a long-term partner country of Finland and involves significant developmental or positive environmental impacts.
- The current credit portion is usually 100% of the contract price. The new law does not specify the credit portion, but it allows the use of development aid for payment of other project related costs, such as a guarantee fee of up to 6%.
- Due to the pre-selected target of 35% in the concessionality level, there is a little flexibility also in the other credit conditions, in maturity and interest rate. The interest is normally 0% to the borrower, but it may be different (higher) for the end-user of the credit after on-lending.

These conditions apply to the loan of the (Finnish/European) financier and the borrower, who is normally either the Ministry of Finance or a bank in the recipient country. The final beneficiary (end-user) of concessional financing, say a water utility or a local municipality, will have to sign an on-lending agreement with the Ministry or a bank, the terms and conditions of which are not known to the MFA.

3.1.4 OECD arrangement and guidelines for officially supported export credit

The Export Credit Arrangement plays an important role in the multilateral trading system, to reflect market developments and to provide a level playing field so that both OECD and non-OECD exporters compete on the price and quality of their goods and services, not on the support they receive from their governments. It also shows the strength of the OECD approach of consensus building, based on transparency and peer pressure. Current provisions, and the evolution of this arrangement, are detailed in a recent OECD report http://www.ecawatch.org/problems/fora/oecd/oecd_arrangement_30_years_13may2008.html There are currently nine Participants to the Arrangement. Efforts are being carried out by the participants to widen participation in the export credit rules to new players through the OECD strategy of accession and enhanced engagement, as set out by the decisions taken at the May 2007 OECD Council at Ministerial Level.

The Arrangement came into existence in 1978 and has been strengthened since then a number of times, notably through the 1991 Helsinki agreement. The latter limited this type of tied aid to non-viable projects. To ensure an even playing field for competition in the provision of officially supported export credits it places limitations on the terms and conditions on export credits and in the provision of tied aid. It includes provisions for prior notification. CCs can be extended to low income (excluding least developed countries) or lower middle-income countries. Some key features of these arrangements are as follows:

- CC projects must be notified to the OECD.
- CCs may not be generally (excluding special goods such as ships) extended to projects that would normally be commercially viable, i.e. cash flow should fund operating costs and service of capital costs and project should not be able to attract commercial financing (except for less than SDR 2 million industrial projects). This is because commercially viable projects should be financed on market terms without subsidies.
- The Arrangement requires that CCs meet at least a 35% minimum level of “concessionality”.

Box 1 Donor Coordination captures the current thinking on how to increase the donor coordination of officially supported export credit.

Box 1 Donor coordination.

Since the Paris declaration of 2005 and the follow-up Accra forum of 2008 on aid effectiveness, ODA has been driven by two overarching principles of harmonization and alignment. Signatories to this platform include most multilateral and bilateral donors, including Finland. They are committed to avoiding aid fragmentation and strengthen donor collaboration to improve harmonization, and to align their support on national programs with strong ownership. Within this broad framework, donors also committed to a number of improvements in aid delivery, notably by elaborating individual plans to further untie their aid.

The 2007 peer review shows Finland to be a committed development co-operation actor that has clearly defined priorities confirmed in the new development policy with an increased focus on environment and climate change, crisis prevention and support for peace processes. It is also a keen proponent of policy coherence for development; it is making some progress in concentrating its aid and is committed to the aid effectiveness agenda including being a strong supporter of country ownership, alignment, harmonisation, division of labour and joint donor efforts.

It is worth repeating here DAC’s summary recommendation on Finland’s remaining tied aid, the CC scheme evaluated here: “Finland fully complies with DAC requirements to untie all aid to LDCs. However, contrary to the recommendation of the 2003 peer review, Finland decided to continue its concessional credits” (OECD 2007).

3.2 Concessional credits 2002-2009

3.2.1 Scheme administration

In Finland, there is no separate, independent or permanent organization for the sole purpose of administration and implementation of this scheme. Tied CC rules and conditions are administered and monitored by the MFA and Finnvera where MFA is the lead organisation of the scheme. Day-to-day coordination and administration of the scheme is the responsibility of the Unit for Development Financing Institutions (KEO-50) in the Ministry, which is a small team comprising of the head of unit and two desk officers. With some support from specialists in the Ministry and significant inputs from sector advisors and consultants working on Framework Contract-basis, the unit processes the credit applications, selects projects and drives the process on interest subsidy for CCs. In close collaboration with many stakeholders, e.g. Quality Assurance Board (QAB), statements from specialists and reports from Framework consultants and Finnvera, the process eventually leads to a proposal for a decision on granting the interest subsidy.

Finnvera, operating under the Ministry of Employment and the Economy, is the sole guarantee provider by law for all the CCs and supports the MFA in administrative work. It receives credit/guarantee applications from enterprises/financiers and it participates in the project selection, because credit approval depends on the availability of Finnvera's guarantee. Finnvera has an official Export Credit Agency status and it is the contact link to the OECD Agreement.

The lender bank (always chosen by the exporter) secures funding for the buyer's credit and negotiates a buyer's credit agreement with the foreign bank or the ministry of finance or assigned bank in the recipient country. The Finnish State Treasury pays the interest subsidy to the lender bank after the approval of the MFA. The State Budget approved by Parliament defines every year the MFA's ceiling to commit new CCs. Figure 2 presents the key aspects of the scheme's financial procedures.

3.2.2 Project cycle stages

The administration and implementation of the CCs scheme requires actions and decisions by many actors. The CCs support the implementation of projects and not just the delivery of supplies and equipment and therefore they rely on a standard project cycle. However, CCs have more administrative complexity than a standard official development assistance project, as there is also involvement from commercial banks and credit guarantee agencies – a similar complexity exists in infrastructure projects involving public partnerships and private financing combined with official guarantees.

The process involves a number of organisations both in Finland and in the recipient countries. The process may differ somewhat when the initiative is with the Finnish exporting company and project preparation is assumed to be the responsibility of this

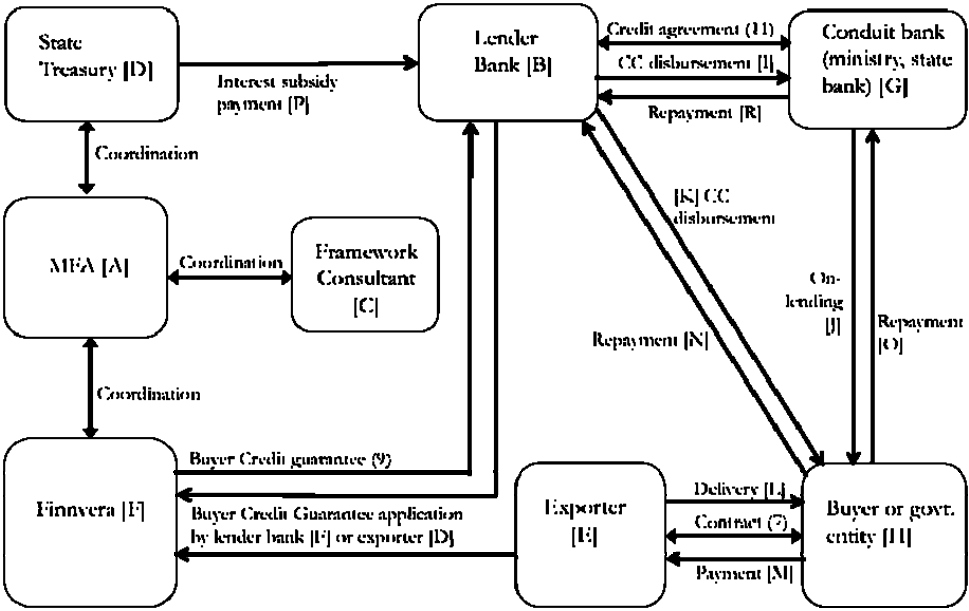


Figure 2 Financial procedures and fund-flows of the concessional credit scheme. Figure revised by the editor (TvW).

company (MFA 2010). Alternatively, the project preparation is a responsibility of the buyer and project owner who are in charge of the preparation of the feasibility study.

Stages in the preparation of a typical (simplified, may differ from case to case) CC project are shown in Table 2, showing also the main responsibilities of the MFA, Finnvera Ltd and the partner country. Further, it distinguishes the activities that take place in Finland and those that take place in the partner country. It elaborates on the tables presented in official and consultant reports, including the “Brochure of the Ministry for Foreign Affairs Concerning the Concessional Credit Scheme” (MFA 2009).

Table 2 Stages in the preparation of a typical concessional credit project.

	Stages in Finland, Ministry for Foreign Affairs (MFA)	Stages in Finland Finnvera	Stages in Partner Country
1			Identification (Feasibility)
2	Pre-assessment of project	Request of credit guarantee, preliminary review	
3	QAB recommends appraisal		
4	Decision on project appraisal		Appraisal

5	Approval	OECD Notification	
6			Selection of supplier
7			Contract signed
8		Assessment of the project	
9	QAB assessment, recommendation	Decision to provide a Credit guarantee	
10	Final Approval and signature of Minister of Trade and Development	Credit guarantee issued	
11			Signing of credit agreement
12	Notification to State Treasury, Finnvera, supplier, and MoF of the recipient country		
13			Implementation of project, delivery of project goods and services, payments
14	Monitoring: (a) periodic reports on progress of project implementation (b) mechanism for systematic monitoring (c) MFA impact evaluation		

Source: Extracted from official documents and clarifications by MFA.

From project preparation to appraisal decision (stages 1 - 4)

As noted already, the initiative for the project could come either from the Finnish exporting company [E] or from the lender bank [B] (Fig. 2). The project identification (stage 1 in Table 2; later references to Table 2 only by a number in brackets) and project preparation is critical in establishing the logic of the development intervention. The MFA [A] is conscious of the importance of this phase and has in May 2010 prepared new guidelines for the preparation of feasibility studies for CCs. Feasibility studies are the main project document and should accompany all CC applications. The quality of these documents constitutes the main indication of local ownership and of sustainability as well of readiness for implementation.

The MFA assigns its Framework consultants [C] to carry out a pre-assessment of the project based mainly on the project feasibility study. The pre-assessment (2), makes a recommendation for appraisal (or not) of the project. The pre-assessment notes the documents that have been revised (e.g. feasibility study, Finnvera [F] comments, letter of intent), provides a description of the project and its compliance with Finnish development policy, with OECD terms for soft financing, with development objectives

and plans from recipient countries and local authorities. The pre-assessment also covers the relevance, results and sustainability of the feasibility study.

From the point of view of Finnvera [F], the process generally starts when it receives a request for a buyer credit guarantee (2) either from the exporter [E] or from the lender bank [B]. A feasibility study should be normally attached to this application. Finnvera's carries out a preliminary review of the guarantee application, for example in relation to OECD compliance *vis a vis* credit risk and income category and comments are included in the pre-assessment form. An initial support by Finnvera is necessary for the pre-assessment to result in a decision to move to the appraisal stage. Finnvera checks the eligibility of the country from the OECD country eligibility list for CCs and verifies that the country and the borrower is also creditworthy and acceptable to Finnvera. There are only a few countries, which belong to the eligible countries list but are not acceptable to Finnvera due to various reasons, such as poor past payment experience, arrears to Finnvera, and high risks. The QAB of the MFA studies the documentation and decides if the project qualifies for the CC scheme. If so, the QAB recommends sending a field team of consultants under the framework contract [C] to carry out an appraisal (4) of the proposed project in the project country. Terms of Reference are issued by MFA for the assignment.

From project appraisal to approval of the concessional credit (stages 5-10)

The appraisal team will travel to the partner country (4) and engage in discussions with the local stakeholders in order to prepare the appraisal report. The objective of the project appraisal is to investigate the degree to which the project appears to be technically feasible and complies with the issues underlined by the pre-assessment. These issues include compliance with Finnish development policy, with development policy of partner government and with OECD terms for soft financing and the sustainability of the project. The items covered by the report include: project and scope, sector issues, project promoter and project owner, technical issues, project organisation, costs and financing, procurement and contracting, socio-economic aspects (including affordability), environmental assessment, financial and economic analysis, justification for financing (relevance, effectiveness, efficiency and sustainability- in some cases this is a very short section) and conclusions and recommendations.

Overall, the appraisal report produced by the framework consultants is the main vehicle for the MFA assessment of the developmental impact of the CC proposal. A satisfactory field appraisal report usually results in a decision by the MFA to approve (5) the project for OECD notification as export credit. With this authorisation, Finnvera officially notifies (5) this proposed CC to the OECD. This is because OECD regulations require that key facts of the proposed project are submitted to OECD member countries for review. These countries have 30 working days to review the project and to ask for clarifications. If no objections are raised during this period, the project is considered approved by the OECD regulation. This starts the decision-making process for approval within the MFA.

In the partner country, a supplier/exporter [E] is selected through an open procurement process (6). The procurement procedures follow local legislation, while at the

same time accommodating the need of the Finnish content and the role of the Finnish exporter. Procurement tends to be a complex and time consuming stage in the CC process that often results in long delays. As a result, limited international bidding or direct negotiations may be acceptable or required, especially when there is only one Finnish supplier (in such a case, MFA requires some verification of price level of goods and services). Some additional arguments for the process are presented in Box 2.

The procurement process ends with signing of the delivery contract (7). Only when the supplier [E], the buyer [H], the lender bank [B] and conduit bank [G] are identified Finnvera can start a formal assessment (8) of the credit application. Finnvera's preliminary assessment for the credit guarantee addresses the exporting company's trustworthiness as a supplier. Finnvera also assesses the credit worthiness of the partner country, the credit-worthiness of the borrower [G] or buyer [H] and it needs to assess the suitability of the lending bank [B], and provides an initial assessment of the Finnish component and the supplier meeting OECD Agreement conditions. Finnvera calculates the concessionality level of the financing (minimum of 35%) which determines the parameters of the loan in terms of maturity, grace period and interest rate valid at the time for the project.

Box 2 Procurement process.

As a rule, a contractor or supplier shall be selected through Limited International Competitive Bidding among invited contractors and suppliers. The tendering process will always follow the local (recipient country) legislation. In exceptional cases, direct negotiations may be allowed. In circumstances where competitive bidding cannot be applied the procedure for procurement shall need approval by MFA or the Embassy (on no-objection basis). In such cases, MFA will verify the price level of goods and services in order to avoid distortion of prices as a result of the concessionary element.

The procedure is quite clearly presented in the "Guidelines for Finnish Concessional Credit Projects in Vietnam", published 15.06.07 for test use (MFA 2007c).

An implication of the restricted or limited procurement process or direct negotiations may be the impression that it favours Finnish suppliers and that the ultimate result is that the project is not cost effective. However, to qualify for such exceptional procedures, the project must, in the first place, have the required Finnish content and secondly that the project must be superior to other alternatives. That superiority may result in buyer's acceptance of a higher price. Such higher price may be criticized as not being cost effective, while not taking into account that the benefits of the technical superiority should motivate the higher price. Precisely these issues will be subject to discussions during the direct negotiations, at the same time providing necessary arguments for the de-facto cost effectiveness. These issues should also be subject to special attention in the appraisal report.

Box prepared by the editor TvW.

The MFA, through its QAB prepares an assessment (9) of the delivery contract, taking into account the appraisal report, the assessment of the delivery contract, Finnvera and other elements such as statements from sector advisors, MFA departments and Finnish embassies and makes a recommendation for the approval or not of the project. Once all these steps are completed and Finnvera has made the decision (9) to provide the credit guarantee to the project, the Minister for Foreign Trade and Development makes the final decision to approve the CC for the project and signs the approval of the project (10). As is the case for other types of non-grant ODA, the CC represents a form of public borrowing that needs to be approved by the appropriate authorities of the recipient country.

Implementation and monitoring (stages 11-14)

The signature by the Minister provides the formal approval (10) for the project and allows for issuance of the buyers credit guarantee (9) and signing of the credit agreement (11) with the bank. The Finnish State Treasury [D] of the project and authorised to make interest subsidy payments [P] to the banks Also Finnvera, exporter and MoF of recipient countries are notified (12). Credit disbursements, either to the national borrower (a ministry or a state owned bank) [G] with on-lending [J] to the actual buyer [B], or disbursed [K] directly to the buyer [H] starts, and project supply delivery [L] and implementation takes place (13). Over the time, implementation includes payments [M] for the delivery to exporter, repayments [N] to lender bank [B] or via the borrowing bank [G] with further repayment [R] to lender bank [B]

The CC regulations include requirements for the MFA to monitor (14) that the loan is used for their intended purpose. The 2001 Act provides authority for the MFA to cancel the CC if the loan is not used for its intended purposes. The risk management and monitoring of results of CCs also calls for periodic reports by project suppliers on progress of project implementation and the creation of a mechanism for the systematic monitoring of projects (for example, MFA 2009, 7.)

However, consultations with stakeholders and review of project documentation indicate that the monitoring or post-implementation evaluation provisions within the process have not been implemented. This policy has not been translated into a contractual obligation. Therefore, we have not been able to find any systematic post-appraisal evaluations of CC projects, beyond the evaluations of instruments and limited ad-hoc report by Finnish Embassy Staff.

3.3 Statistical profile of the Finnish concessional credit

This evaluation covers CCs initiated during the period 2002 to 2009. This ensures continuity with the 2003 evaluation, which covered the period 1993-2001. The list provided by the MFA shows a total of 47 projects starting since 2002 corresponding to 156 MEUR of granted subsidy. A complete list of projects covered in this evaluation is presented in Table 3.

Table 3 List of interventions.

Project name	Sector	Grant- ed total amount (MEUR)	Total amount of payments (MEUR)	Start date	End date	Dura- tion (yrs)
China						
Gansu-Pingliang Cold Storage project	Health	0.90	0.32	06/02/02	31/12/09	8
Xinjiang Agricultural Project	Agriculture	4.45	1.65	01/09/02	31/12/09	7
Xuejiadao District Heating	Energy	1.83	0.87	01/09/02	31/12/09	7
Baotou District Heating	Energy	2.12	0.85	01/01/03	31/12/09	7
Alashan Hospital Equipment project	Health	0.43	0.21	11/04/03	31/12/17	15
Fuzhou Hospital Equipment project	Health	0.97	0.33	07/05/03	31/12/17	15
Zhangshu Hospital Equipment project	Health	0.74	0.33	07/05/03	31/12/17	15
Xinjiang Tractor project	Agriculture	2.62	1.35	01/08/03	31/12/09	6
Fuliyan District Heating	Energy	1.99	0.70	01/10/03	31/12/09	6
Zhangye District Heating Project	Energy	1.87	1.01	01/10/03	31/12/09	6
Jinhua Children's Hospital Project	Health	2.49	0.83	01/12/03	31/12/09	6
Xianyang Centralized Heating project	Energy	1.54	0.74	01/01/04	31/12/09	6
Yanji Centralized Heating project	Energy	3.70	1.87	01/01/04	31/12/09	6
Guiyang GIS Project	Government and civil society	1.66	0.26	01/06/04	31/12/09	6
Ningguo Hospital Equipment project	Health	1.15	0.46	01/06/04	31/12/09	6
Luochuan Cold Storage project	Agriculture	0.96	0.38	10/09/04	31/12/17	13
Liuzhou Hospital Equipment project	Health	1.29	0.43	01/10/04	31/12/09	5
Shihezi/Kuitun Agricultural Development in Xinjiang	Agriculture	1.64	1.21	01/01/05	31/12/09	5

Heilongjiang Agriculture Project (Tractors)	Agriculture	0.99	0.71	30/05/05	31/12/09	5
Datong Hospital Equipment Project	Health	1.30	0.66	17/06/05	31/12/11	7
Fufeng Cold Storage project	Agriculture	0.78	0.20	19/09/05	31/12/17	12
Yanchua District Heating Project	Energy	1.62	0.41	01/01/06	31/12/09	4
Bole Tractor Delivery Project	Agriculture	2.20	0.17	30/03/06	31/12/09	4
Wuwei District Heating for Chenman District	Energy	2.75	0.49	08/06/06	31/12/15	10
Heilongjiang Agricultural Equipment Project (Tractors)	Agriculture	4.44	0.40	13/09/07	31/12/09	2
Xinjiang/Shihezi Cold Store project	Agriculture	1.54	0.09	20/09/07	31/12/13	6
Pucheng Central Heating Project	Energy	2.65	0.00	04/11/09	31/12/15	6
Costa Rica						
Hospital Equipment Project	Health	12.88	5.92	01/01/03	31/12/09	7
Ghana						
Rural electrification, Ashanti and eastern regions	Energy	8.04	0.00	06/05/09	31/12/25	17
Honduras						
Rural Electrification project	Energy	5.16	0.22	25/09/03	31/12/10	7
Namibia						
Hospital Project	Health	8.57	1.05	01/02/07	31/12/15	9
Philippines						
Rehabilitation of waterways	Water and sanitation	3.92	0.21	01/01/07	31/12/09	3
Sri Lanka						
Hospital Equipment project	Health	11.38	5.51	01/03/04	31/12/09	6
Solar Energy for Development of Rural Education and Health Infra	Energy	16.76	4.45	23/11/05	31/12/09	4

Vietnam						
Haiphong Storm Water project	Water and sanitation	1.17	0.33	01/12/04	31/12/09	5
Solar Energy project	Energy	4.22	0.00	17/01/05	31/12/09	5
Upgrading of Electricity Supply Network (MiniScada)	Energy	9.35	0.58	14/08/06	31/12/17	11
Thanh Hoa Hospital Equipment Project	Health	2.67	0.36	08/09/06	31/12/14	8
Cao Bang Hospital Equipment Project	Health	1.04	0.00	10/07/08	31/12/13	5
Viet Tiep Hospital Project	Health	3.98	0.00	08/06/09	31/12/16	8
Firefighting and Rescue Facilities Project	Other social infra and services	5.90	0.00	24/09/09	31/12/15	6
Hung Yen City Water Supply Development Project	Water and sanitation	4.51	0.00	02/10/09	31/12/15	6
Unspecified						
UNSPECIFIED/Preparation trips	Unallocated / unspecified	0.13	0.07	01/01/04	31/12/09	6
UNSPECIFIED/Development cooperation information	Unallocated / unspecified	1.63	1.63	01/01/05	01/01/05	0
VIETNAM/Support for CC projects	Unallocated / unspecified	0.98	0.21	08/08/06	31/12/09	3
UNSPECIFIED/ Framework contract/Finnish Evangelic Lutheran Mission	Unallocated / unspecified	3.03	3.03	01/01/07	01/01/07	0
UNSPECIFIED/Monitoring and supervision of CC	Unallocated / unspecified	0.02	0.00	24/06/09	31/12/09	1

Source: Compiled by the evaluation team based on data from MFA list of projects.
Note: Start date is estimated based on date of first document (typically the appraisal report). End date corresponds to estimated project completion.

The list of project is fairly comprehensive, but may not be complete – as evidenced by the Vietnam field visit. Of the total 47 projects, 5 projects were in the “Unspecified” category, relating to preparation, monitoring, supervision and information of CCs scheme and in one case the “project” covered two phases and two separate approvals.

3.3.1 Concessional credits 2002-2009 by country

Of the 42 CC projects (excluding 5 miscellaneous projects): 27 took place in China and 8 in Vietnam. Costa Rica, Ghana, Honduras, Namibia, Philippines, and Sri Lanka had also one project each. Table 4 presents the dispersion of CC projects by country.

During the 2000s, China remained the largest beneficiary of the CC scheme, both in terms of number of projects and total granted interest subsidy (50.6 MEUR, 32.5% of total). However, the average CC project in China has received subsidy of only 1.9 MEUR and there were fewer projects approved after 2005. In contrast, single projects in other countries have been granted subsidy of notably higher amounts (Sri Lanka 16.7 and 11.4 MEUR, Costa Rica 12.9 MEUR, Namibia 8.6 MEUR, Ghana 8 MEUR).

Table 4 Concessional credit scheme 2002-2009 by country.

Country	Number of approved CC projects	Total CC grant interest subsidy commitments (MEUR)	Share of total CC grant commitments (%)	Total amount of interest payments (MEUR)	Average size of project interest subsidy granted (MEUR)
China	27	50.6	32.5	16.9	1.9
Vietnam	8	32.8	21.1	1.3	4.1
Sri Lanka	2	28.1	18.0	9.9	14.1
Costa Rica	1	12.9	8.3	5.9	12.9
Namibia	1	8.6	5.5	-	8.6
Ghana	1	8.0	5.2	0.2	8.0
Honduras	1	5.2	3.3	1.1	5.2
Philippines	1	3.9	2.5	0.2	3.9
Unspecified	5	5.8	3.7	4.9	1.2
Total	47	156	100	40.5	3.3

Source: Compiled by evaluation team based on data from MFA list of projects.

The total interest subsidy commitments corresponding to these 42 CC projects were 150.2 MEUR (excluding the unspecified category). This corresponds to over 17 MEUR in average yearly commitment for CC, and an average subsidy per project of over 3.5 MEUR. However, project subsidy commitments vary widely, ranging between 0.4 to almost 17 MEUR. Financial disbursements on these 42 projects have to-

talled 35.5 MEUR so far. Several recent projects have not yet received any disbursement (because of grace period on interest).

3.3.2 Concessional credits 2002-2009 by sector

During the 2002-2009 period, CCs were most frequently used to finance projects in the Energy and Health sectors, with almost one third of projects in each of these sectors. As shown in Table 5, in terms of financial commitments, Energy was the largest sector with 40.8% of total CCs grants. Projects in Health were allocated 31.9% of total concessional financing commitments between 2002 and 2009 -- most of the health projects were funded between 2003 and 2005. Other sectors covered included Agriculture, Water and Sanitation, Government and civil society, and other social infrastructure.

The number of newly approved projects under the Scheme during period varied between 1 and 10 with yearly total financial commitments varying correspondingly between 1 MEUR (2008) and 31 MEUR (2003). Table 5 provides further details on sectors; Table 6 provides details on number of projects commenced and total CC commitments by year.

Table 5 Sectors Supported by the concessional credit scheme 2002-2009.

Sector	Total concessional credit grant interest subsidy commitments (MEUR)	Share of total concessional credit grant commitments (%)	Number of concessional credit projects
Energy	63.6	40.8	14
Health	49.8	31.9	14
Agriculture	19.6	12.6	9
Water and Sanitation	9.6	6.2	3
Other social infrastructure	5.9	3.8	1
Government and civil society	1.7	1.1	1
Unspecified	5.8	3.7	5
Total	154.3	100	47

Source: Compiled by the evaluation team based on data from MFA list of projects and OECD statistics.

Note: Sri Lanka hospital equipment classified in health, although OECD DAC puts it under Government and Civil Society.

Table 6 Number of projects and total commitments under the concessional credit scheme.

Year	Number of projects commenced	Total concessional credits grant interest subsidy commitments (MEUR)
2002	3	7.2
2003	10	31.3
2004	9	23.0
2005	7	27.3
2006	6	19.6
2007	5	21.5
2008	1	1.0
2009	6	25.1
Total	47	156

Source: Compiled by the evaluation team based on data from MFA list of projects.

Discrepancies of amounts presented in column “Total CC grant interest subsidy commitments (MEUR)” in Tables 5 and 6 have been elaborated in Box 3 Statistical differences in Tables 4–7.

3.3.3 Portfolio trends, common themes

The above tables reveal that the structure of the portfolio has not remained static during the evaluation period: (a) China has grown to become the largest recipient, accounting for about one-third of CC projects in value; (b) but number of projects in China approved has been recently declining, there were not any new health projects after 2005 and focus was on energy and environment projects; (c) in the latter part of the period, Vietnam (once the Rao II bridge project discussed later-on is added) became as important as China and (d) two sub-Saharan African countries benefitted from the scheme in the late 2000s.

3.4 Other Finnish instruments, complementarity and contributions

According to statistics and other information published by the MFA, total appropriation for the funding of development cooperation in the 2008 budget amounted to MEUR 668. Another MEUR 163 was allocated for administrative and other costs, bringing the total appropriation to MEUR 830 Million. Interested subsidy, presumably associated with disbursement under the CC programme, accounted for MEUR 11 million. While in absolute terms Finnish aid is relatively small when compared to

multilateral donors (for instance soft loan commitments by the World Bank in 2008 were about US\$15 billion per annum), and not as large as some bilateral donors (such as DFID or Japan) it is focused on fewer countries, which makes it relatively important for those beneficiaries.

As noted in the TOR, in addition to the CCs, other instruments are in place to promote business cooperation between Finnish companies and those of the developing countries. General Finnish aid, described elsewhere, is not considered here because its detailed assessment is well outside the scope and resources of the present evaluation and because it operates at the national level -- even if overlaps may exist in the case of CC health and infrastructure projects. There are thus two relevant instruments: Finnfund and Finnpartnership, both of which are managed by Finnfund.

The objective of this section is to describe these two instruments and present a comparison of

- (a) how they relate to the Finnish development policy; and
- (b) whether and how they are mutually reinforcing and complementary.

Additional information on these schemes is available in the most recent annual report and other public sources. Overall, they appear to be good complements and possibly substitutes to the CC schemes, in the sense that they appear to provide complementary financing mechanisms with adequate developmental impact, as well as capacity building. Another aspect of this complementarity is that both Finnfund and Finnpartnership schemes operate in countries where in practice the CC scheme is inactive. However, from the development standpoint, the main shortcoming is that the Finnpartnership programme mainly benefits Finnish enterprises and only indirectly addresses the needs of partners in developing countries. This appears to be much less of an issue for Finnfund. As explained below, based on the evaluation team's experience in designing and managing such programmes, greater development focus would require addressing this imbalance.

3.4.1 *Finnfund*

Finnfund was established in 1979 to initiate industrial cooperation as a complement to traditional development aid. The conceptual basis for its creation was that developing countries had clearly expressed their desire to initiate industrial cooperation as a complement to traditional development aid. The developing countries need appropriate technology, investment capital and business management skills. A development finance company would be needed to channel these. These goals remain largely relevant today. More detailed concerning this scheme are presented in Annex 10.

Finnfund now provides investment financing in the form of minority equity investments, investment loans, mezzanine financing and a combination of these. The projects should have an experienced industrial sponsor, strongly committed to the project. If the sponsor is not a Finnish parent company, some other link to Finnish interests must be demonstrated. The present approach seems to be in line with

that of multilateral (e.g., World Bank's IFC) and bilateral donors. The set of instruments offered appear complementary and mutually reinforcing. Most importantly, the scheme appears to incorporate a flexible definition of the notion of 'Finnish Interest', which in practice implies that the facility is not tied to Finnish suppliers and can be accessed by the private sector of developing countries. The project itself must operate in a developing country (or in Russia). Finnfund's financing often enjoys exemption of withholding and capital gains taxation due to bilateral tax treaties. Finnfund's financing is not tied to exports from Finland. The set of instruments offered appear complementary and mutually reinforcing. Most importantly, the scheme appears to incorporate a flexible definition of the notion of 'Finnish Interest', which in practice implies that the facility is not tied to Finnish suppliers and can be accessed by the private sector of developing countries. The documentation appearing on the Finnfund website presents important development results notably in Sub-Saharan Africa. As of end-August 2009, Finnfund had committed 375 MEUR to 123 projects throughout the world. Figures 3 and 4 provide further information on the geographical and sector distribution of these commitments.

3.4.2 Finnpartnership

The main approach of this recent scheme is based on that of matching-grant facilities, which since the 1990s have become a core successful donor instrument for private sector support. Finnpartnership also manages a matchmaking component through which companies and organizations in Finland and in developing countries can seek out new cooperation opportunities. The strong points of the scheme include a capable implementation agency, levels of financial support that seem reasonable and broadly sound procedures. A key feature of the Finnish scheme is that its primary beneficiaries are Finnish firms and developing countries benefit indirectly at best. The implied trade-off between the needs of client countries versus that of Finnish firms is similar to that between the commercial goals and development objectives of the CC scheme.

3.5 Concessional credit commitments as a share of total ODA

The average share of CC commitments in Finnish ODA between 2002-2008 was 4.5%, although this share varied between 0.2% and 9.1% in individual years, as presented in Table 7 CC commitments as share of total ODA. These relatively low average shares understate the relative importance of these commitments in certain countries (notably Vietnam and China).

Table 7 Concessional credit commitments as share of total ODA

Year	Total Finnish ODA (MEUR)	Total CC grant interest subsidy commitments (MEUR)	Share of CC grant commitments in total ODA (%)
2002	316.4	7.2	2.3%
2003	342.1	31.3	9.1%
2004	345.0	23.0	6.7%
2005	547.6	27.3	5.0%
2006	477.8	19.6	4.1%
2007	482.8	21.5	4.5%
2008	637.8	1.0	0.2%
2009	...	25.1	...

Source: Concessional credit data – MFA Finland, ODA statistics – OECD/DAC CRS online, Annual average exchange rate (EUR per USD) used as per OECD/DAC: 2002:1.061, 2003: 0.8851, 2004: 0.8049, 2005: 0.8046, 2006: 0.7967, 2007: 0.7305, 2008: 0.6933.

Box 3 Statistical differences in Tables 4 – 7.

Information presented in above tables 4 to 7 may not be accurate and the tables themselves not comparable with each other. This inaccuracy may be caused by several reasons such as the first recording year (commitment or actual disbursement), grace periods, maturity beyond project completion, information collected from different sources with different recording principles etc. For example,

- Table 5, column “Total CC grant interest subsidy commitments (MEUR)” states 154,3 MEUR as a total amount, while Table 6 a column with a similar heading states the amount as 156 MEUR, same as in Table 4. It has not been possible to verify which one is the accurate amount.

- Table 4, column “Total amount of interest payments ...”, which would be the more relevant amount to analyze, suggests that 40,5 MEUR have been paid out for 47 projects in eight countries and for five unspecified projects between 2002 and 2009. However, later official statistics i.e Suomen kehitysyhteistyön perustilastot 2010 (not available for the team at the time of evaluation) states that disbursements between 2002 and 2008 (one year shorter period) were 10 MEUR more or 50,5 MEUR in total.

- In Table 7, the amounts in the column “Total Finnish ODA (MEUR)” differ from amounts presented in other sources, for example the above mentioned “Suomen kehitysyhteistyön perustilastot 2010”

Such differences may have implications on the calculations on the share CC of total ODA in Tables 5 and 7 and on any conclusion drawn on presented amounts.

Source: MFA 2010. Box prepared by the editor (TvW).

3.6 Finnish concessional credit to Vietnam and China

The majority of the CC scheme projects are being implemented either in Vietnam or in China. These two countries are used briefly to illustrate some of the main themes found in the TOR. Relations between Finland and China are important at the political level. In practice cooperation between Finland and China is mainly concentrated in the commercial and economic sector. The framework for future collaboration is laid-out in the 2010 China action plan. Outside the CCs, China is no longer a recipient of Finnish aid, other than under exceptional circumstances and following natural disasters, such as the 2008 earthquake. The scheme is the main instrument for Finnish Development Policy in China.

Vietnam was also mentioned in the 2007 DAC report, stating that Finland introduced performance based budgeting in the early 1990s. It is, however, unclear how the current system of performance targets is being used by managers to improve Finland's development co-operation impact, or whether proper channels for feedback exist.

Vietnam was the target for a closer field study. In line with the Government of Finland's Development Policy of 2007, Vietnam is one of Finland's eight long-term partner countries. Finland is Vietnam's eight biggest ODA partner with total commitments of 104,5 Million USD in 2004-2006. As per information from the Embassy of Finland in Hanoi, the exact amount of projects under preparation, appraisal, tendering or implementation as per June 2010 was 120,6 Million EUR (ANNEX 7).

The framework for development cooperation consists of Vietnam's Socio Economic Development Plan, 2006-2010 and the Development Policy Programme of the Finnish Government (MFA 2007a). Even though continuation of CCs is envisaged, this is not fully consistent with other strategic statements, including the presentations in Vietnam made by a Finnish high-level delegation in March 2010. The forum on aid for trade makes no mention of CCs. Instead, Finnfund and the Finnpartnership programmes are given prominence. It is unclear whether this constitutes a shift in Finnish strategy towards these potentially promising programmes. It is also possible that the CC scheme is not strictly speaking considered to be part of aid for trade. According to the document entitled Development Cooperation plan for Vietnam 2009-2011 outlines the current Finnish assistance strategy to this country. The planned allocation of Finnish aid to Vietnam is MEUR 54 million over three years, excluding financing of regional projects in the Mekong region.

At the beginning of the present programming period, the Finnish Government prepared a comprehensive review of all its key partner countries, including Finland's role and added value as part of the donor community, the countries' need for assistance, and the need for continuing cooperation. Due to the rapid economic development in Vietnam, the review recommended a transition from long-term inter-governmental cooperation to other forms of cooperation. Based on this, Finland's development cooperation with Vietnam will gradually decrease in financial terms, but at the same

time new type of programmes (innovation partnership in information society) and instruments (institutional collaboration and Finnpartnership) will be strengthened, together with a continued role for CCs, in order to support the shift towards a more trade and twinning type of institutional partnerships between the countries. Finland is also committed to increase its funding to the development of a knowledge based society in Vietnam and to programmes supporting mitigation and adaptation on climate change in Vietnam. Annex 9 includes a study of CCs in Vietnam.

3.7 Review of concessional credit schemes of other countries

The Finnish CC scheme has the following distinguishing features:

- (1) it funds investments that are not financially viable, but have high economic, social and/or environmental rates of returns;
- (2) at least 30-50% of the investment goods by value have to originate from Finland;
- (3) the concessionality is achieved by subsidizing the interest rate of a commercial loan; and
- (4) targets specific countries, mostly middle-income developing countries. The other donors' schemes reviewed below broadly incorporate these features.

The present context is set out in DAC peer reviews systematically discouraging continuation with tied-aid mechanisms. The strong preference by beneficiary countries to move away from tied-aid was further brought out by the 2008 Accra Forum. A key point agreed in the Accra Agenda for Action relates to Untying – donors will elaborate individual plans to further untie their aid. In practice, many bilateral and multilateral donors continue to finance developmental investment through CCs, only a handful still do so through tied aid. This trend is likely to be partly in response to the harmonization and alignment agenda embodied in the 2005 Paris declaration furthered in Accra. Continued presence of tied aid may also reflect the tension between commercial and development goals, which are often not easy to reconcile. Finally, an unstated concern is that tied schemes may increase the scope for inefficiency and even corrupt practices, which are at odds with aid effectiveness and the good governance agenda pursued by donors.

- **The Dutch scheme (discontinued in 2008).** The aim of support via the Development Related Export Transactions program was to improve employment, trade, industry and environmental protection in emerging markets through assisting countries in financing the import of necessary capital goods, services, construction works or a combination thereof. The transaction should contain enough technical assistance, provision of spare parts, follow-up support etc. to ensure the sustainability of the project. The program was stopped in 2008 and remains dormant.
- **The Belgian scheme.** The Federal Public Service Finance manages a small ODA loan programme, with ODA interest subsidies for two purposes: to promote Belgian exports, and to develop partner countries. For these funds to

qualify as ODA, the developmental motive must take precedence over the interests of Belgian exporters. Few loans have been extended to least developed countries since the DAC recommendation to untie aid to these countries came into force in 2001.

- **The Spanish scheme.** Spain's ODA includes an export finance facility at subsidized rate; the Aid for Development Fund. The broad contours of the scheme can be found posted on the internet, but details about this scheme or its implementation results are not readily available.
- **Italian tied aid.** Italy does not have a specific program supporting CCs, but an important part of its aid remains tied. Projects in health, agriculture and infrastructure are supported under Italian aid and may support beneficiaries similar to those under the Finnish approach.
- **The Japan economic partnership scheme.** The Special Terms for Economic Partnership loans are explicitly tied to the procurement of Japanese goods and services. In order to adhere to the OECD Arrangement, Japan offers particularly attractive financial terms on all loans. But, it has made its tied loans more concessional than its untied loans, which can act as an incentive for partner countries to choose tied conditions and may in some cases fund potentially commercially viable projects. Japanese ODA projects are regularly evaluated and results posted on the Japanese International Cooperation Agency website.
- **The Danish mixed-credit scheme.** The Danish scheme shares many features of the Finnish instrument, except that only Danish banks appear to be eligible intermediaries and there is a provision that allows for reduction of the loan principle. The mixed credit scheme faces operational issues and other major challenges, including:
 - (a) how to strike the balance between export promotion and development assistance; and
 - (b) the extent to which poverty reduction and the cross-cutting issues could be incorporated into the project design. Project objectives are generally consistent with national sector policies and strategies and are judged to have contributed positively to public and private sector development.

Most projects have general developmental impacts and may introduce new technology and better environmental management. Depending on the sector the impacts on poverty reduction, gender and democratization are less evident.

Lines of credit. Certain donors, including France continue to provide untied CCs through financial intermediaries. These loans may be subsidized either to address a specific public good, such as the environment, or to promote Small Medium Enterprises. Subsidy aside, they operate in a manner similar to lines of credit of multilateral donors.

Many countries that funded CC schemes in the late 1990s no longer do so. A common feature of remaining schemes is that their operations do not appear to be sufficient and there is sparse reporting of results. This issue is less pronounced for the

Danish and, to a lesser extent, the Japanese programs. Furthermore, while these schemes clearly benefit the donor countries' exporters, their contributions to development in recipient countries may not be optimal and/or substantial. The similar Danish and Finnish schemes face analogous issues.

4 PREVIOUS EVALUATIONS

4.1 Early evaluations

The present evaluation represents the fifth review of the scheme since it became operational in 1987. Three previous evaluations were undertaken in the 1990s (van der Windt *et al* 1992; Kyrklund *et al* 1996; Osterbaan & Kajaste 1999), and the most recent one dates back to 2003 (WaterPro Partners Ltd 2003). Evaluations undertaken in the second half of the 1990s focused on the review of 14 projects and on environmental sustainability. The initial and most recent assessments were cross-cutting with broad coverage of issues. Country/project reviews were used to bring-out or emphasize specific points. As laid-out in the TOR for the present study, it too follows a similar approach and is governed by comparable TORs. Two notable differences include the present emphasis of various dimensions of sustainability and less focus on fieldwork. In addition, two DAC peer reviews undertaken in the 2000s include an independent view of the CC since it was last evaluated.

The previous evaluations help illustrate how the issues have evolved and/or changed (or indeed remain present) and whether and how recommendations of previous studies and lessons have been integrated into the scheme. As noted below, the scheme has evolved over time in line with some recommendations from evaluations and the changing circumstances of development aid – for instance project financing was dropped early-on. However, important weaknesses remain in the area of records management, M&E, the conflicting goals of export promotion and development exacerbated by a supply-oriented approach, insufficient depth of field appraisal, and low competition in procurement. Untying of aid represents another recurring recommendation. These issues remain largely unaddressed when this study was launched, even though some improvements in the scheme were initiated during the past 6 months.

The 1992 evaluation made several recommendations, one giving greater importance to the developmental impact of projects and improving monitoring through field supervision and improved client's reporting. Others include streamlined decision making, more in-depth field appraisal, greater reliance on international competitive bidding and greater attention to pricing, greater attention to alternative technology option, institutional strengthening within the Finnish Development Agency overseeing the program at the time. The report also recommends untying aid and/or considering goods procured from developing countries within the tied-aid portion.

The evaluation in 1996 recommended that adequate counterpart funding and training should be considered, as well as conditions under which the equipment will operate. Further it recommended that local management capacity should be taken into account, and that provisions for spare parts should be made.

The main conclusion of the 1999 study is that “although environment is an important spearhead in Finnish development cooperation, the translation into clear guidelines, procedures and practice is not fully developed yet.” On this basis, the study recommends strengthening environmental management through improved processes as well as “the use of EBRD and World Bank methodology for indicating the environmental sensitivity of a project.” The introduction of this approach would have avoided some of the problems noted in the present evaluation, notably the disposal of hospital waste.

4.2 The 2003 Evaluation

This evaluation (WaterPro 2003) was quite broad in scope and was seen partly as an update of the 1992 evaluation, as is the case for the present review. The 2003 evaluation covered the period 1993-2001 and reported that during the period 56 projects were approved by the MFA for a total credit value of 175 MEUR and subsidy component of 76 MEUR; during this period China was the main beneficiary of this scheme, receiving 70% of the financing for 40 projects. The evaluation was primarily on process, namely the feasibility of the CC scheme and its administrative arrangements.

The evaluation recognised the commercial – rather than developmental - motivation of the CC scheme, but noted that some strengthening of development aspects had taken place recently. In summary, while noting progress in certain areas, the 2003 evaluation highlights areas of significant weakness, many of which were already mentioned in previous evaluations. In its assessment of the scheme, the evaluation finds a better focus on development aid, while the competitiveness of procurement remains weak, procedures are in transition, monitoring suffers from shortcomings and administration is deficient. The projects in Vietnam were deemed to have achieved their objectives while sustainability of health projects in China appeared at risk.

The study made thirteen recommendations, summarized in Table 8. The third column of this table draws on the conclusion of the present study as well as other sources to indicate progress in following up these recommendations. This indicator suggests that there has been limited follow-up to many of the recommendations.

Table 8 Recommendations of the 2003 evaluation and indicative progress to-date.

Area /Objective/Issue	Recommendation	Indicative progress to-date
A. Policy		
<p>1. Reduce Uncertainty :</p> <ul style="list-style-type: none"> • Need for long-term strategy. • Operational guidelines that are consistent with Policy. • Stable administrative framework. 	<p>CC should be conceived as the primary instrument to facilitate the participation of the business community in development cooperation. It should support projects with favourable environmental, social and economic impact, with direct benefits to the poor. The projects should follow the OECD rules for associated financing and tied development assistance. They should emphasise technical, institutional and financial sustainability, secured by effective training and institutional strengthening components.</p>	<ul style="list-style-type: none"> • New policy adopted in 2007. • Varying sustainability.
<p>2. Increase usage of facility:</p> <ul style="list-style-type: none"> • improve or discontinue system; • make instrument a key link to the private sector. 	<p>MFA should expand the level of subsidy (or grant) to the level of 10 % of Finnish ODA disbursements by the year 2005. This would have represented 43 million EUR disbursements in 2001 and a credit volume of about 123 million EUR.</p>	<ul style="list-style-type: none"> • Scheme was continued. • Link to private sector in recipient country quite weak.
<p>3. Selection of beneficiary.</p>	<p>CC should be primarily directed to 5–6 priority recipient countries, jointly selected by MFA and the business community, for adequate creditworthiness established by Finnvera, gradual move from grant-based development assistance towards commercial financing, public administration willing and capable of preparing and implementing projects in a transparent and efficient way, availability of financial mechanisms for on-lending and attractiveness of the country as a business partner for the Finnish private sector. China and Vietnam should remain on the list of recipient countries. Active promotion of credits should be directed to other priority countries and should be available for all eligible countries, on case-by-case basis.</p>	<p>Selectivity maintained and China and Vietnam dominate – 53 out of 65 ongoing projects in 2009. Fewer projects approved for China in late 2000s.</p>

<p>4. Environmental and social sectors targeting:</p> <ul style="list-style-type: none"> • Sector restrictions have contributed to failures in social sector. • Institutional set-up affects outcomes. 	<p>Instead of favouring specific sectors, CCs should be targeted at projects with favourable environmental, social and economic impact, implemented by internationally competitive Finnish contractors.</p>	<p>Competitiveness not demonstrated and impact of some projects unclear.</p>
<p>5. Lead times in project preparation and implementation:</p> <ul style="list-style-type: none"> • 5-10 years from identification to completion. • Insufficient implementation capacity. • Inadequate spare-part availability. 	<p>MFA should support joint project identification and preparation with grants (TTT and/or other TA funds), and focus on projects with clear responsibility for implementation, which also includes training and institutional strengthening components (grant support) for long-term sustainability. The Ministry should refrain from subsidising isolated equipment deliveries without a clear project framework.</p>	<ul style="list-style-type: none"> • Long lead times remain and institutional strengthening narrow/partial. • Country procurement delays another factor.
<p>6. Financing capacity enhancement:</p> <ul style="list-style-type: none"> • Training and institutional strengthening often left unfunded. • Enclave approach do not associate other financiers. 	<p>MFA should actively look for co-financing possibilities (parallel or joint financing) with leading development banks and other donor organisations, and participate in the identification, preparation and supervision of CC projects, which contain adequate training and institutional strengthening components.</p>	<p>Poor integration with other donors.</p>
<p>7. Transparency and efficiency of Procurement:</p> <ul style="list-style-type: none"> • Limited competition. • Higher cost. • Un-transparent practices. 	<p>MFA should abolish the domestic content requirement for CC projects in the name of aid quality. Instead, the Ministry should require in each project a Finnish interest, which can be flexibly determined case by case.</p>	<p>Limited progress, despite incentives by 2005 Paris Declaration and 2008 Accra forum.</p>
<p>B. Instrument</p>		
<p>8. Complexity:</p> <ul style="list-style-type: none"> • Trade-off between development impact and commercial interest. • Need to have fully integrated project. 	<p>MFA should gradually replace the present pre-mixed credit with a two-component financing package (grant + commercial export credit) maintaining the current minimum level of concessionality. The grant component should be disbursed in parallel with the export credit during the project implementation period.</p>	<p>Not implemented.</p>

<p>9. Role of Guarantees:</p> <ul style="list-style-type: none"> • Instrument limited in scope by country circumstance. • Serving more countries. 	<p>The Ministry and Finnvera should activate the dormant guarantee instrument for good projects in high-risk countries. The Ministry should establish a guarantee fund to cover the default risk on behalf of the fund manager, Finnvera.</p>	<p>Not implemented but other forms of guarantees can be obtained for some CC projects</p>
<p>10. Facilitate SME lending:</p> <ul style="list-style-type: none"> • Not used in practice, except in one case, even for projects that met the size criteria. 	<p>MFA should activate the Small Credit window of concessional financing and also encourage Finnish SMEs to participate in development cooperation. The operator of this scheme is proposed to be Finnfund, which has the capacity and professional qualifications to promote, prepare and monitor these projects. It would also be the lender of the credits, which would be funded from its own resources and guaranteed by Finnvera.</p>	<p>A Finnfund scheme operates, but may not be identical to what was recommended.</p>
C. Administration		
<p>11. Efficient administrative process:</p> <ul style="list-style-type: none"> • Process time consuming, costly for beneficiaries. • Inadequate management systems. • MFA faces potential conflict of interest. 	<p>MFA should compare and assess the two administrative options (reorganization or outsourcing) in consultation with key stakeholders. After the selection of the preferred option, the Ministry should have a Concessional Credit Revitalization Action Plan prepared, and funds made available for its implementation.</p>	<p>Issues largely not addressed (also see 2007 DAC review).</p>
<p>12. Increased Stakeholder ownership:</p> <ul style="list-style-type: none"> • Instrument not known. 	<p>MFA should plan and carry out an information campaign for the promotion of the revitalised CC instrument, using the services and contact networks of Finnfund, Finnvera and Finnpro.</p>	<p>Integration with other instruments minimal.</p>
<p>13. Attainment of results:</p> <ul style="list-style-type: none"> • Failure of 3 projects out of 16 sampled, and questions over a handful of others. 	<p>MFA, together with Chinese authorities, should carry out an independent investigation into the reasons behind the unsatisfactory performance of the following Dalian Hospital, Guangxi Health Projects, Shanghai Blood Centre Maoladong Hydropower plant. The pipeline projects in the health sector should wait for the results of the investigation.</p>	<ul style="list-style-type: none"> • Assessment not undertaken. • 7 health projects approved in China during 2003-5 none thereafter.

4.3 The 2007 DAC Peer Review

The 2007 DAC peer review (OECD 2007) provides a relevant independent summary assessment of the Finnish scheme. This OECD document notes the continued operations of the CC scheme and further recommends that certain deficiencies, including the following, be addressed:

- The reorganisation of the development co-operation structure in the MFA should ensure clear lines of accountability, reduce the high transaction costs and clarify the policy and implementation functions among and within departments. Finland should delegate more decision-making to embassies, for project approval and results reporting. The MFA should build upon and simplify earlier efforts to develop results-based management systems.
- It will be important to ensure that human resources are adequate to manage the programme effectively as Finland increases its aid: any staff reductions need to be considered in this context.
- The MFA should create and implement a human resources policy for the development co-operation function which should focus on increasing development co-operation skills through recruiting experts and strengthening the training for the diplomatic, non-development specialist, cadre, and to ensure that technical experts receive systematic training on MFA regulations, and practices and are fully integrated into MFA structures.
- The Unit for Evaluation and Internal Audit should be moved out of the Department for Development Policy in order to ensure strict independence.
- Given that the CC scheme is tied, a system should be put in place to evaluate the developmental impact of these credits.

These recommendations are in line with those of previous evaluations and bring-out recurring issues also noted in the present report. Even though our study did not focus on institutional issues, it is clear that much of this agenda remains topical and reflects the continued shortcomings of the scheme.

5 EVALUATION FINDINGS

As explained in the previous section on methodology, the evaluation team has regrouped the evaluation questions in the TOR around the five criteria of:

- (i) relevance;
- (ii) effectiveness;
- (iii) impact and sustainability;
- (iv) efficiency; and
- (v) complementarity, coherence and coordination.

For each criterion, a series of indicators was proposed to guide the evaluation. In view of the importance of M&E as a cross-cutting theme affecting every aspect of the review below, this is addressed at the outset of this section to avoid repetition of the issue for each evaluation criteria. Other important questions are poverty alleviation, Finnish value-added, and the cross-cutting issues of gender, marginalized group and HIV/AIDS. The evaluation should also give due consideration to the global policy goals, including MDG Paris declaration and the Accra platform. The analysis around each theme is based on the synthesis of the desk review and the Vietnam field visit.

For easy reference, a table has been prepared to present an overview. The table is divided into two parts, where Table 9.a presents findings related to overall evaluation issues and table 9.b presents findings related to evaluation criteria. The table is followed by a narrative presentation on each criterion. A more comprehensive narrative on the findings will follow after the table.

Table 9 Findings related to overall evaluation issues and evaluation criteria.

Table 9.a Findings related to overall evaluation issues	
Poverty alleviation	<ul style="list-style-type: none"> -CC Scheme supports projects having favorable impacts on the economy, social development or the environment, while only indirectly contributing to poverty alleviation. -There is difficulty in translating these objectives operationally at project level. -Poverty reduction does not receive a sufficient focus in most CC projects. -Projects too often initiated and have strong input from commercial activities rather than prioritizing poverty alleviation. -CC projects not targeting poor and have low poverty impact.
Cross-cutting issues	<ul style="list-style-type: none"> -The CC projects do not usually consider role of gender, marginalized group, or HIV/AIDS, not even in projects where they would have been expected. -Gender analyses in project documentations tends to be weak.
Finnish Value-Added	<ul style="list-style-type: none"> -Some projects with strong environmental focus are providing a significant value-added to sustainable development providing Finnish know-how and technology. -There are very few cases, if any, where Finnish specific added-value contributes to poverty reduction.
Monitoring and evaluation	<ul style="list-style-type: none"> -The Finnish CC Scheme and its individual projects do not meet criteria set out in chapter 5.1.1 -Lack of adequate M&E systems constitutes a critical weakness. -Absence of a M&E system does not allow the identification of environmentally, economically and socially sustainable interventions, discernible changes, poverty alleviation.
Financial aspects	<ul style="list-style-type: none"> -In the majority of cases no issues over the projects' commercial non-viability, while many appraisal reports present only narrow but still satisfactory evidence that these projects are financially non-viable -Ensuring that projects do not distort local market not well analysed in project documents. -Funding for investment program adequate but budget allocations for basic records keeping and monitoring insufficient.

	<p>-Allocation for project for social and environmental remedies, providing TA resources for complementary activities, capacity building, preparation, implementation, supervision and monitoring seems inadequate and unsatisfactory by both donor and beneficiary.</p> <p>-Project management capabilities are limited by the small number of staff in the MFA.</p> <p>-MFA relies heavily on consultants for the pre-assessment and the appraisal of projects providing coverage of narrow project issues, but lack in-depth independent analysis and at times necessary objectivity and important issues are often not discussed.</p> <p>-Some projects are processed speedily and effectively (2-3), others taken 5 years or more from preparation to implementation.</p>				
Management by MFA and Fimvera					
Table 9.b Findings related to evaluation criteria.					
DAC/OECD Criteria:	Relevance	Efficiency	Effectiveness	Sustainability and Impact	Coherence, Complementarity, Coordination
General observations	<ul style="list-style-type: none"> - Development focus is often less prominent than the commercial one. -Lack of adequate M&E systems are a critical weakness for all projects. 	<ul style="list-style-type: none"> -Projects do not produce the intended impact in a cost-effective way. -Evaluation of efficiency, effectiveness, sustainability and impact very hard due to too small information base and absence of proper monitoring reports. 	<ul style="list-style-type: none"> -Nr of projects meeting objectives is insufficient. -Problems during implementation reduces effectiveness -Institutional culture not evolved as rapidly as aid effectiveness agenda or recommendations of the 2007 DAC Peer Review. 	<ul style="list-style-type: none"> -Analysis of sustainability is not sufficiently addressed in documents and discussions. -Maintenance of projects not detailed in documentation. -No post-appraisal evidence on impact. -Lack of consideration of sustainability issues limits impact. -No direct impact on poverty reduction, indirect links are hard to establish. 	<ul style="list-style-type: none"> -Limited consideration on complementarity in project formulation -No significant coordination between the Finnish CC projects and other projects.

Evaluation questions as per TOR					
1. Did budgetary appropriations adequately reflect development commitments, global development agenda, major goal of poverty reduction	In Finland	-Adequate but underfunded for implementation, supervision and monitoring.	-CC Scheme does not meet the current standards for aid effectiveness.	-Insufficient financial resources for operations and maintenance a risk for sustainability -Financial constraints for maintenance will shorten economic life.	-Lack of collaboration and resources pooling increases sustainability risk. -No harmonization with other donors and broader Finnish aid.
	In partner country	-Implementation, monitoring and capacity building underfunded -Underfunding undermines relevance, ownership.	-Underfunding hinders effectiveness.	-Government participation does not guarantee full commitment to financial resources and staff. -CC projects seldom engage local communities in design or implementation weakens sustainability.	-Insufficient TA budgets and budgets for operations and maintenance, and lack of link-up with other donors considered a risk.
2. Are the interventions responding to priorities and strategic objectives of the cooperating party?		-The CC projects have potential to introduce private sector	-Significant portion of projects fails to meet even modest goals.	-Low local involvement affects sustainability, which also is not in line with Finnish development aid.	-Characteristics of CC projects problematic for

	<p>goals, less on poverty alleviation.</p> <ul style="list-style-type: none"> -Interventions are export driven -Project dispersion against trends to increase development programs. – Modest relevance with Finnish development objectives. 	<p>tor logic and possibly greater efficiency in government interventions.</p>	<p>-Some are likely to meet narrow objectives, if implemented as planned</p> <ul style="list-style-type: none"> -Low local involvement not in line with Finnish development aid. 	<p>-Issues of effectiveness seem to affect sustainability.</p> <ul style="list-style-type: none"> -Being in line with local plans and priorities might not lead to achievement of impact. 	<p>donor coordination</p> <ul style="list-style-type: none"> -The CC projects support driven, limiting integration of business with policies -Governments devote limited capacity and resources for coordination.
<p>3. Are they additional or complementary interventions or completely detached and stand-alone, i.e. what is the Finnish added-value, in terms of</p>	<p>quality or quantity</p>			<p>-Selection of Finnish technology i.e. Finnish value-added has limited impact on poverty.</p>	<ul style="list-style-type: none"> -No evidence for complementary with other donors. -No discussion of complementarity.

	presence / absence of benefits.			<p>-Finnish product's superiority not established.</p> <p>-No provisions for broader TA</p> <p>-Fails to establish assistance obtainable by other means, undermines effectiveness.</p>	<p>-Technologies promoted by CC projects not designed with the poor in mind.</p> <p>-CC projects make no provisions for broader TA and documentation fails to establish that required assistance may be obtained through other means. This may undermine the sustainability.</p>	
<p>4. How are the three dimensions of sustainability addressed in the intervention documents?</p>	<p>Environmental</p>		<p>-CC interventions have generally made limited contributions to environmental sustainability.</p>	<p>-Environmental sustainability weakly covered at the planning level, which indicates also a low ex-post achievement.</p>	<p>-Environmental benefits/costs not fully captured.</p> <p>-Central heating and solar projects environmentally sustainable; other projects lack environmental impact analysis.</p> <p>-No benchmarks for comparison of impact before and after.</p>	<p>-Lack of coordination resulted in missed opportunity in enhancing various aspects of sustainability by drawing upon possible synergy between projects.</p>
	<p>Social</p>				<p>-Social sustainability analysis insufficient, of poor quality.</p> <p>-Social dimensions weakly covered at planning level, indicating low ex-post achievements.</p>	

5. Discernible changes, intended, unintended, direct or indirect?	Economic	<p>-No issues over projects' commercial non-viability and relevance for CC.</p> <p>-In some cases narrow but satisfactory evidence of projects being financially non-viable.</p>	<p>-CCs introducing private sector logic for greater efficiency in many government project interventions, but not generally the case.</p> <p>-Most projects do not generate significant revenues.</p>	<p>-Required user fees will limit access for the poorest.</p>	<p>-Main benefits from central heating projects i.e. increased fuel efficiency and significantly lower emission of airborne pollutants is good examples for environmental sustainability.</p> <p>-Renewable energy source reduce environmental impact,</p>	<p>-In cases with higher poverty impact, sustainability is compromised.</p> <p>-Analyses focus on the economic sustainability.</p> <p>-Economic sustainability weakly covered at planning level.</p> <p>-Economic sustainability a problem, when sophisticated equipment combined with limited finances and staffing for operation and maintenance.</p> <p>-Economic sustainability costs not discussed.</p>	<p>-No evidence that poverty assessments by other donors and governments were drawn upon to decide how to locate a project to target poor better.</p>
	Environment	<p>-The evaluation cannot confirm major discernible changes attributable to project outcomes.</p>	<p>-Finnish authorities reject projects late, i.e. waste of time and financial resources.</p> <p>-Rejection on unclear justification, insufficient under-</p>	<p>-Some projects verified broad coherence</p> <p>- However, better coordination with donors would</p>			

			standing of the recipients development needs.		dredgers; pumps reduce floods. -No major discernible changes attributable to project outcomes.	enhance the environmental aspects of some health projects where disposal of used supplies is an important issue.
	Products working?				-TA plays an important role during installation and start-up.	
	Activities corresponding with products.	-Project preparation does not benefit from lessons learned			-No confirmation in the project documents on any discernible changes attributable to project outcomes.	-Project preparation does not benefit from lessons learned,
	Follow-up on spares, capacity building	-Project preparation does not benefit from lessons learned.			-Not detailed in documents -Inadequate funding for maintenance, spares, capacity building	
6. Have the human resources, modalities of	Is the current Finnish CC-system		-Human, financial resources for efficiency, functionality	-TA would improve effectiveness.	-TA playing an important role in improving sustainability. -TA provided to safeguard in-	-Insufficient transparency on the Finn

<p>managing and administering intervention enabling or hindering achievements of outputs, outcomes results or effects?</p>	<p>Is project management by MFA and Finnvera justified?</p>	<p>-Nothing mentioned about role of Finnvera.</p>	<p>inadequate. -Absence of focus on intentions reveals disconnection between policies and implementation. -Efficiency is low on results and effectiveness. -Dimensions of impact not cost-effective, limited.</p>	<p>-Project management capabilities are limited by the small number of staff in the MFA. -MFA relies on consultants for pre-assessment and appraisal. -Insufficient transparency on the Finnish CC selection.</p>	<p>-Management would benefit from Finnfund involvement, would involve private sector of developing countries to pursue CC schemes more effectively.</p>	<p>-Governments or local partners are providing some financial contribution to the implementation of the projects, which is critical to project sustainability -But, this provision is not adequately ensured.</p>	<p>ish side of selection process. Multitude of actors may take contradictory positions.</p>
						<p>-Close collaboration with Finnfund would be beneficial for daily management. -Would allow MFA to move away from daily administration of the scheme and focus on implementation progress instead.</p>	

							-CC is managed by a multitude of actors, actions and decisions not coordinated.
							-Governments or local partners are providing some financial contribution to the implementation of the projects, which is critical to project sustainability. -But, this provision is not adequately ensured.
							-The dimension of impact is not cost-effective.
							-The cost efficiency of interventions is limited by a number of factors, notably by the Finnish content requirement.
							-Impact provided on the economy, social development or the environment, are not efficiently contributing to poverty alleviation.
							-Relevance of role of gender, marginalized group, or HIV/AIDS on sustainability of projects could not be established.
							How is the poverty reduction achieved?
							8. Role of cross-cutting issues of Finnish development policy contributing to sustainability of results and poverty reduction, any particular value-added in the following:

	<p>Are products helping poorest, do they have access to them?</p>	<p>-The projects rarely focus on the poor or the poorest of the poor. -Not in accordance with WHO recommendations that priority should be given to primary health at community level.</p>		<p>-In VN analysis is that value in terms of poverty impact is low.</p>	<p>-Links between economic sustainability and accessibility for the poor are not assessed. -Explain support to projects not economically sustainable and not having a significant impact on poverty reduction. - Instrument only by policy design, not in practice in accordance with the objective of Finnish development policy.</p>	<p>-Better donor coordination could have improved targeting the poor.</p>
<p>9. Concrete identifiable interventions which are environmentally and socially sustained, or have lead to poverty alleviation or alleviation of consequences of poverty?</p>	<p>-Only few projects have targeted the poor directly.</p>			<p>-Project documentations suggest that some projects, (central heating projects in China, solar energy projects in Sri Lanka) are more likely to achieve some degree of sustainability.</p>		

<p>9. Have interventions been able to contribute towards</p>	<p>Sustainable results</p> <p>Raising people from poverty</p>	<p>-In cases like equipment for hospitals, upgrading of electricity networks, fire-fighting equipment, the analysis on how this advanced technology would benefit the poorest not done</p> <p>-Beneficiaries not the poorest of poor.</p>	<p>-Efficiency limited by Finnish content requirements.</p> <p>-CC interventions during the 2000s have generally low poverty impact.</p>	<p>-Dimension of impact is not cost effective.</p> <p>-Intervention logic to demonstrate how economic results helps to improve the lives of the poor, or benchmarks allowing assessment of project benefits to the poor not included.</p>	<p>-No verifiable evidence (no indicators) for sustainable economic results</p> <p>-No indicators to measure sustainability, effectiveness or impact.</p> <p>-No focus on developing logical framework for raising people from poverty.</p> <p>-Very few projects have targeted the poor in a direct way, being in line with local plans and priorities might not contribute to poverty alleviation.</p> <p>-Better donor coordination and consultation could have resulted in improved targeting of the poor.</p>
<p>10. How is society touched upon by interventions in strategic and project planning?</p>		<p>-Local government bodies or state-owned companies have limited degree of</p>	<p>-No substantial degree of community participation at design stage.</p>	<p>-Low participation in preparation leads to low degree of ownership, affecting effectiveness.</p>	<p>-Low participation in preparation affects sustainability.</p> <p>- CC project documentations show very limited involvement of local communities in project design and implementation, with few exceptions.</p> <p>-Larger donor projects covering a CC sector should include community participation as</p>

	<p>participation in preparation proposals.</p> <ul style="list-style-type: none"> -Projects export-driven with less local input. 				<p>part of governance structure.</p> <ul style="list-style-type: none"> -Community participation in design and implementation limited on donor harmonization.
<p>10b. What have been the major modalities of the society to influence and affect interventions and decision-making?</p>	<ul style="list-style-type: none"> -Projects export driven, with less input from recipient. -Local communities generally not engaged in design and implementation. 			<ul style="list-style-type: none"> -Lack of engagement weakens sustainability. -Local communities involvement small, limiting impact on the poor and sustainability. 	<ul style="list-style-type: none"> -Lack of coordination, local communities having low involvement (if any) in project design and implementation.

5.1 Monitoring

5.1.1 *The centrality of monitoring and evaluation*

The importance of defining objectives is key to development aid. In the 1980s, the issue of intended results came to the fore, as the nature and scope of development projects changed. Diversification into new spheres, such as social sectors, capacity enhancement and private sector and finance, meant that single indicators, such as the economic or financial rate of return, were no longer sufficient to measure the project's attainment or indeed in some cases were difficult to calculate. It was then agreed that intended outcomes would also need to be specified and measured. This is even more important today where in addition to direct project outcomes other objectives, indirect results, such as economic and environmental sustainability, and gender equality are sought, and need to be monitored. Since the 1990s, many donors have introduced different forms of results monitoring and management as an integral part of project preparation and implementation.

An appropriate M&E framework should meet at least the following criteria:

- Intended results and related indicators have to be specified at the outset of the project. Baseline indicators should be available and targets should be clearly stated. These should typically be included in the appraisal report.
- Intended results should be measurable, attributable to activities under the project, comprehensive, significant and relevant. In order to achieve this, the results framework needs to strike the right balance between output-oriented goals (e.g. a training is given) and aiming for outcomes that may only partially be within the control of the project (e.g. pollution in city reduced thanks to a District Heating project).
- There should be regular monitoring of results. In some cases, when circumstances change, to compensate with oversight at appraisal, or based on the situation on the ground, the set of indicators and or targets may be modified and new ones retrofitted. To achieve this, there should be periodic supervision of projects under implementation by a team of experts with appropriate experience and skills-mix.
- The M&E framework needs to be supported by a good records and data management system.
- To the extent possible, the system should be transparent with results available to the public.

The Finnish CC Scheme and its individual projects do not meet the above criteria. However, the project level M&E may be complemented by broader sector and/or thematic studies that can be used as an additional management tool, to identify cross-cutting issues, aggregate results and as an instrument of dialogue with stakeholders. Such ad-hoc studies are undertaken by Finland. For example, there are periodic assessments of the CC scheme, summarised in Chapter 4 and the objective of the present report. Other relevant recent studies and evaluations initiated by MFA include: Proj-

ect Portfolio Development and Management in Water and Environment Sector, Vietnam 2004; Concessional Credit Project Portfolio Development and Management in Health Sector, Vietnam 2004 and 2009; Solid Waste, Vietnam, 2007; Mixed Credit Study 2009. Other relevant sources include OECD, for instance its 2005 evaluation of the Finnish Health portfolio (<http://www.oecd.org/dataoecd/7/45/35179762.pdf>) which underscores certain shortcomings consistent with the findings of this study.

5.1.2 Monitoring and evaluation as a tool for project management

The current brochure on Finnish concessional financing makes M&E of results a key objective. Evaluations of the Finnish CC Scheme during the past 20 years have identified significant weaknesses in the many aspects of M&E. Formal procedures governing the scheme have been strengthened and monitoring implementation has been made mandatory (as per current guidelines) but they are not followed. The problems identified already in the 1992 evaluation remain present and have significantly handicapped the present review.

Despite the up-front recognition of the importance of result based management, in practice this area has been given limited attention during the past decade. As a result, the evaluation dimension receives a consistent unsatisfactory rating for all projects reviewed. This situation is the result of a combination of three factors:

- (a) appraisal reports do not lay-out a clear consolidated M&E framework; even when in a handful of cases a partial one could be derived from information in the text, there was no or limited baseline;
- (b) there is no evidence of any significant post-implementation monitoring; and
- (c) TA is not provided to put in place a M&E system.

All project appraisal documents include a statement of project objectives and many include various references to intended results. In most cases this statement is clear and relevant; this is a first step towards setting-up a results framework, which could constitute a reasonable set of outcome indicators. Another key aspect of a good M&E system is a reliable baseline for indicators and systems in place to monitor results. Neither is present in CC projects and the quality of indicators, if any, built into projects is uneven. The review of appraisal documents also revealed that they were quite deficient in providing baseline data for indicators, even if in a minority of cases it appears they could be obtained for some from other sources. Overall, the M&E system incorporated in the best CC appraisal report is unsatisfactory at best.

Except for information collected during and subsequent to the Vietnam visit, the evaluation team has not been able to obtain documents on project outcome and results, or indeed confirm that the projects were implemented as designed and were operational. According to the CC scheme program documents, the monitoring function is supposed to be undertaken by Finnish embassies, but there was sparse evidence that this was being done satisfactorily throughout the period. Another possible source for reporting of results could have been the appraisal reports of similar

projects implemented at different times. For example, a company supplied central heating projects in China. Therefore, we looked for possible lessons learnt from earlier projects to be reflected in subsequent ones. The review of documents reveals that this was either not done at all or not done well.

Irrespective of whether or not some degree of M&E is being conducted either by the donor and/or beneficiaries, information on output and outcomes are not available and are not being used as a tool for management of results. It appears that the Development Finance Institutions unit (KEO-50) is aware of these issues and is reflecting how best to introduce a M&E systems for these interventions. Nevertheless, this has affected the ability to deepen the analysis and strengthen the conclusions for most aspects the present evaluation, especially in the area of effectiveness and sustainability.

Finally, as a positive finding, in the case of one project (Philippines Waterway) the MFA had provided a clear guidance whereby contingency funding should be used to fund environmental monitoring. However, we do not have evidence whether this was implemented. It is possible that in the absence of Technical Assistance resources and M&E is considered as an unfunded mandate by all parties concerned, which may explain lack of follow-up in this area. Based on information from the Embassy in Hanoi, it appears that equipment delivery is now monitored. Specifically, handover Minutes are signed between the Project Supplier and the Project Owner stating the completion status of a project and detailing what precisely has been delivered, when and where. Based on these minutes a project is transferred from the pipeline list to the list of completed projects. The list of completed projects is then published on the MFA website with the time of the completion. Also the monitoring visits of the completed projects complement the process of making sure that the projects have indeed been implemented according to the commitments. Overall, M&E of the scheme seems highly unsatisfactory.

5.2 Financial aspects

5.2.1 *Financial non-viability*

One of the central issues arising is the financial non-viability. Another one is to assure that CC projects do not distort local markets or competitiveness, which is a policy requirement for all OECD compatible schemes. The compliance with the rules of commercial non-viability and impossibility to obtain financing on market terms is discussed and confirmed in most project documentation. In the majority of cases, there are no issues over the projects' commercial non-viability, while many appraisal reports present only narrow but still satisfactory evidence that these CC projects are generally financially non-viable; and therefore appear to comply with the letter of OECD / DAC requirements. However, in about 20% of cases, notably those that are commercial in nature, the definition of what constitutes a viable project is quite unclear. Specifically, in some cases a double-digit internal rate of return is considered unviable.

In other cases a viable self-standing portion of an investment is packaged with other less productive investments in order to meet the non-viability criteria. Furthermore, expected viability is a function of projected revenue flows and scale of investment. In certain cases, such as tractors or cold storage, available data suggests that a smaller scale of investment may have been financially viable. There is also a broader related question over whether a different scaling of projects that are more commercial in nature (tractor and cold storage) would have not led to financial viability. Back of the envelope calculations, based on available data, suggests that purchasing fewer tractors or building smaller cold storages would increase the Internal Rate of Return (IRR) to a level that is generally accepted as financially viable.

The requirement of ensuring that projects do not distort local markets and do not affect competition is not well analysed in project documents. CC projects are always subjected to the Finnish content requirement, which limits the opportunities of local and regional produces to take part in the deliveries. In this respect, larger infrastructure investment projects (such as grid electrification and probably district heating) are more suitable for concessional financing, as they generally require subsidy in order to accelerate access and deal with social and environmental issues. They are also less likely to distort existing markets in recipient countries.

5.2.2 Budget adequacy

The question if the budget was adequate to goals has two dimensions. The first concerns the resources allocated to funding of an individual project. Project documents indicate that the required investment financing was provided by European banks while pointing to some difficulties in raising counterpart funding. Any inadequacy in investment funding is thus more related to expenditures such as funding for social and environmental remedial action, providing broader TA resources for critical complementary activities, capacity building in hospitals and putting in place M&E systems. Overall, we conclude that, while projects were generally defined too narrowly, the funding provided to the investment program as appraised was adequate.

However, the projects generally do not sufficiently focus on sustainability in their design or in implementation. Issues of maintenance of projects in terms of financial resources, staff capacity or spare parts are often not detailed in project documentations. This is reflected in appraisal reports that note the need to include budget for training and maintenance, yet the importance of this issue is not sufficiently stressed. The degree of which these issues are taken on board at the contract level appears to be rather low.

The second aspect of the budget issue relates to the allocation of resources towards project preparation, implementation, supervision and monitoring. On the donor's side, the absence of basic records keeping and monitoring arrangement is indicative of insufficiencies in resources devoted to these areas. Similarly, the evaluation process seems much lighter than those followed by donors, such as the EU and the World

Bank, and there is almost no supervision of implementation, aside from a handful of independent evaluations and periodic site visits by embassy sides. A simplified comparison with similar volume of World Bank project management costs would indicate that the necessary budget allocation for MFA's project management would need to be at least Euro 2 million. This seems to be well below what is spent on the program.

A similar under-funding of resources is seen on the beneficiary side. Again, taking a simple small World Bank project as reference, 5 to 10% of the project budget is allocated to project implementation by the beneficiary, including implementation, monitoring and capacity building. Despite mandatory reporting obligations stated in scheme's procedures, there is no evidence that such an allocation is budgeted or expenditure made. Budget allocation for project preparation, implementation, supervision and monitoring by both MFA and beneficiary seems inadequate and unsatisfactory.

5.3 Relevance

5.3.1 Overall findings on relevance

According to the 2005 policy guidelines governing the CC Scheme, it is normally used to support projects that through favorable impacts on the economy, social development or the environment, while contributing only indirectly to poverty alleviation. The former aim is in line with Finnish development policy while there is difficulty in translating these objectives operationally at project level. Furthermore, poverty reduction, even indirectly, does not receive a sufficient focus in most CC projects. This is partly because of the way projects are formulated, often with a strong input from Finnish exporters seeking guarantees and financing for their commercial activities in developing countries. The partner government often plays a relatively modest role.

While commercial and development interests do not have to be contradictory, our review of project documentation suggests that the development focus is often less prominent than the commercial one. The intervention logic for achieving development goals by using the CC instrument is often not emphasized or is not sufficiently rigorous.

5.3.2 Relevance to the recipient government, degree of its participation

The documentation suggests many projects have benefitted from interaction with central or local governments. These projects are often broadly in line with medium and long-term sectoral development strategies, and local government bodies or state-owned companies appear to have some degree of participation in the preparation of project proposals and/or feasibility studies. However, there is also strong evidence that projects are often exporter-driven, and have less input from recipient organisa-

tions and/or ultimate beneficiaries. This limited role and capacity constraints of partner governments is indicated by the low quality or the absence of some feasibility studies. KEO-50 is addressing this issue, and in June 2010 approved new guidelines to strengthen the quality of CC feasibility studies, so as to significantly improve the entry quality of projects.

Even when projects are in line with local or central government priorities and strategic plans, this might not necessarily lead to achievement of developmental impact and contribute to poverty alleviation. For example, Sri Lanka's focus in the health sector has shifted from primary to secondary and tertiary medical care, and thus the project of delivering medical equipment to its hospitals was strictly speaking not in line with the developmental priorities. The focus on affordable primary health care for the poorest groups in society should be more relevant to the primary goal of poverty reduction and making progress on MDGs.

In other cases, although the CC project appears to be supported (and financed) by central government, implementing agencies may not have been involved in project preparation, undermining the relevance and ownership of project proposals. For example, in the fire-fighting equipment project in Vietnam, where government's participation has been through the Ministries of Finance and Security, there is no evidence that cities or fire departments have been consulted to acquire their inputs in deciding what to procure and how to deploy vehicles. While this top-down approach may be usual practice in Vietnam and reflect national priorities, it seems that the very decentralized nature of the activity necessitates greater consultations with fire departments.

5.3.3 Relevance for community involvement in project design and implementation

Local communities are generally not involved in the definition and implementation of CCs, even though they are frequently affected. This does not appear consistent with the philosophy of Finnish development aid and may limit project sustainability. The weak engagement of local communities is partly the result of relying on turn-key projects and specific technological solutions, as well as insufficient appreciation of decision-makers on how effectiveness and sustainability depend on and can be enhanced by the engagement of the local community. According to Vietnamese authorities there appears to be insufficient transparency on the Finnish decision making in regards to CC selection. Ownership of CCs is also limited because of the supply driven approach reflected in the dominance of the Finnish side on decisions about TA and project design.

Certain technological solutions are best adopted by a society if local communities are engaged. The Vietnam Solar Energy Project provides an example of this, whereby the implementation plan specified that the Communal People's Committees would be responsible for the electricity system installation in their communes. However, community involvement was absent at the project design stage, and unclear through its

implementation. This leads to uncertainty over the extent to which ownership and sustainability of the project can be ensured.

Another example of needed community involvement is brought out by the project providing medical equipment for a new hospital in the Jinhua, China. In this case, local Women's Union and child disability groups were supportive. But, the political culture of the recipient country conditions and probably limits the potential degree of community involvement.

5.3.4 Relevance for Finland's goals of poverty reduction

The CC scheme is one of the instruments of Finnish development policy, and therefore it should contribute to its main goal of eradicating poverty, but the relevance vis-à-vis Finnish highest development objectives is modest. In the document Policy Guidelines concerning the Concessional Credit Scheme (MFA 2005), the MFA notes that "due to the special nature of the CC, it is normally used to support project that, through favourable impact on the economy, social development or the environment, only indirectly contribute to poverty alleviation". Therefore, the instrument by policy designed is potentially in accordance with the objective of Finnish development policy.

However, the review of available project documentation, the Vietnam field visit, and previous evaluations indicate that the development policy objectives have not been translated into project design and implementation. The intervention logic of most of the projects doesn't focus on the direct impact on poverty reduction and even the indirect links are hard to establish. Moreover, the projects rarely focus on the poor or the poorest of the poor. For example, health projects have provided sophisticated hospital equipment that is not geared towards serving the poor: appraisal reports have noted that this policy is not in accordance with WHO recommendations whereby priority should be given to primary health at community level. Similarly, tractor projects in China also do not effectively target the poor, in part due to affordability issues. In other cases, projects have been located in relatively wealthy areas of the country (e.g. Haiphong projects in Vietnam) instead of areas where disadvantaged and marginalised groups exist (e.g. including the disadvantaged ethnic minorities in Vietnam). This is particularly important given the Finnish government strong commitment to support vulnerable groups. Even projects that aim to deal with the poor, an in-depth discussion of how the project will benefit different groups is often not present. CC project should start by explaining how they will be able to contribute to poverty reduction and how their design will help ensure the economic sustainability of the project.

5.4 Efficiency

5.4.1 General findings on efficiency

Based on the analysis of the 20 feasibility studies and the 38 appraisal reports, we conclude that by and large CC projects do not appear likely to produce the intended impact in the cost-effective way. However, except in a handful of projects, we lack the information base to estimate the degree of efficiency. This is partly because of the limited competition in procurement processes, of which there is substantial documentation (given the Finnish sourcing). Procurement follows local processes, but uses provisions that require the least level of competition and/or involve exceptional waivers for sole-sourcing. In addition, certain CC projects are quite complex. These factors contribute to very long processes, and use of expensive consultants for appraisal of technical documents that are generally of poor quality. Appraisal documents are also generally superficial and repetitive, copying from other similar reports; particularly in sections referring to poverty impact or social sustainability, gender issues, HIV/AIDS and disadvantaged groups.

5.4.2 Are impacts produced in a cost-effective way

CC interventions during the 2000s have low overall poverty impact and have made limited contributions to environmental sustainability, other than a few instances such as domestic heating projects. This dimension of impact is therefore not cost-effective. Furthermore, the cost efficiency of interventions is limited by a number of factors, notably by the Finnish content requirement. This requirement affects competitiveness of the procurement process and likely to reduce the value for money of the intervention. It may also affect the composition of an investment to ensure it reaches the required content level (30%-50%). This effect may influence the mix between equipment and civil works in favour of the former. More importantly, there is a question whether the equipment purchased from Finland is priced competitively for a given quality. Given the restriction on procurement, least price outcomes even when there is more than one bidder does not guarantee value for money.

Most appraisal reports make no attempt of cost comparison or do so by comparing equipment that is different or by simply state that the costs are reasonable. In the absence of quantitative information, such statements are not warranted. Furthermore, some appraisal reports strongly advocated in favour of the purchase of Finnish equipment --especially in cases where there is only one supplier. Such an endorsement should not be part of an objective appraisal report. More generally, turn-key projects will also generally tend to be less cost-effective than multi-contract projects.

In the case of the Philippines waterways, the appraisal document strongly advocates the technology; however, no attempt is made to compare the cost of dredgers with other similar technologies. In the case of Honduras rural electrification the project's unit costs were expected to be about twice as much as other electrification projects.

No considerations of alternative to rural electrification through grid expansion were discussed. In the case of the China Yanyi central heating project, the project documentations suggest that the technology may well be justified by the replacing obsolete technology, though a firm conclusion cannot be established as unit costs are not compared with other projects and the procurement process only yielded one qualified bidder.

In some cases the appraisal reports attempt to justify the selection based on price and quality. In the Vietnam energy project of the upgrading of the Electricity Supply Network System, the appraisal team states in their documents that prices are on the high side. However, the team accepted the amounts after visiting the sites, due to the complexity of the works – generally, quality should not be a factor in procurement of goods, as long as technical specifications in tender documents are met. This is also the case of tractors, where evidence for competitive pricing is presented in all but one case. However, there is only partial information on prices and a limited comparison. While recognising that product quality was unlikely to be at issue, there is insufficient evidence to conclude that these CC projects were cost-effective.

A last aspect of cost-effectiveness concerns whether the scale of the project is appropriate. The review of agriculture projects in China (tractor and cold storage) indicates relatively high financial rates of return. In some cases, the appraisal reports present information that suggests a different scale of operations (e.g., fewer tractors or lower cold storage capacity) would increase financial and economic viability. Any over-investment in commercial projects would diminish cost-effectiveness.

5.4.3 Human resources, enabling or hindering the achievement of the set objectives

Have the human resources, as well as the modalities of management and administration of interventions been enabling or hindering the achievement of the set objectives in the form of outputs, outcomes, results, or effects? There is no evidence that there are enough human and financial resources allocated to scheme to promote its efficiency and ensure it functions well. Furthermore, the absence of focus on a clear set of intended results and measurement of achievement shows a significant disconnect between policies and implementation. Most of the key recommendations of past evaluations have not been followed-up and lessons learnt not integrated into how the scheme is managed and implemented. As a result, aside from the narrow commercial goal of helping Finnish exports, in view of the findings on the various evaluation questions, the efficiency of the scheme is low, from the standpoint of its contribution to development results and effectiveness.

5.5 Effectiveness

5.5.1 Overall findings on effectiveness

The 2007 DAC report provides a positive review of Finnish aid, while underscoring certain challenges (OECD 2007). The report highlights that “Finland still faces some challenges in making sure its policy coherence for development and aid effectiveness policies bring real results.” Nevertheless, the generally positive DAC view of Finnish aid needs to be contrasted with uncertainty over the development impact and sustainability of CC projects noted in the present and past evaluations. The main benefit of the CC scheme over other forms of aid appears to be in terms of additionality, in the sense that it allows Finland to support sectors or activities in countries that would not be otherwise included.

This review considered likely effectiveness based on the contents of the main project documentations, particularly the feasibility study and the appraisal report. A comprehensive feasibility study is generally a good indicator of partner government commitment and capacity. However, the quality of feasibility studies was generally low in most the CC projects reviewed; as they failed to address broader issues and present alternatives. Some of these studies, always prepared by the partner government, were not provided to the team. In a few cases they were prepared by the supplier, which raises questions of potential conflict of interest. Some of these studies, prepared by the partner government, were out of date. Feasibility studies are usually appraised by consultants working for the MFA, but in some cases they were prepared by the supplier, which raises issues of potential conflict of interest.

The appraisal reports generally aim at identifying key strengths and weaknesses of projects and this constitute another indicator of the expected effectiveness of projects and related risks. It is hard to confirm without field visits that projects have been completed and are operation. Important un-answered questions include: was the equipment delivered, was the investment completed according to schedule, is the investment operating, are planned objectives being met, and are there any operational issues being encountered? On the basis of our review, we estimate that the proportion of projects meeting planned objectives is insufficient (about half). It should be noted that problems encountered during implementation typically tend to reduce effectiveness further. Causes include unfulfilled broader capacity building needs for complex projects and insufficient funding of operational and maintenance. The estimate of likely success rate of the CC portfolio is based on the team’s best judgement and will be validated through further analysis of actual outcome and impact. Notwithstanding this proviso, the estimated outcome and impact are quite low, compared to experience of other donors and taking into account that the beneficiary countries of CCs are relatively good performers – the World Bank for instance targets a minimum of 80% for marginally satisfactory or better project outcome.

The absence of ex-post review of projects and available information on whether projects are likely to achieve intended outcome shows a relatively high proportion of projects at risk of not achieving their intended objectives. This finding is similar to that of previous evaluations. In view of these observations, the conclusion of this evaluation is that, in addition to questionable developmental impact, the CC scheme does not meet the current standards for aid effectiveness.

5.5.2 Have the projects effectively met specified/planned objectives

The review of feasibility studies and appraisal reports indicates that some projects are likely to meet objectives narrowly, if implemented as planned. However, a significant portion of projects fails to meet even this modest goal. This raises the issue of whether quality at entry is adequate and whether, internal review processes need to be strengthened. There are a number of reasons to explain shortcomings:

- a) doubts on viability of investments, as exemplified by the Ghana and Honduras electrification projects;
- b) supplier is not identified before finalization of procurement process, c) the procurement process had not yet been launched, and any cost overrun would put the adequacy of the financing plan in jeopardy;
- c) deployment of the equipment is unclear in the appraisal report and this could affect the ability to meet objectives; e.g. Vietnam (only stale feasibility study contains information on initial intentions) and some hospital projects;
- d) only a proportion of the goods being purchased can be justified or there may be deficiencies in the investment goods;
- e) respective examples include two hospital projects in China where for each case “about 50% and 77% of the order is justified”; and
- (f) for most projects operational and maintenance funding issues are seen to affect sustainability.

5.5.3 Has the concessional credit been effective in achieving its immediate results

According to project documentations, Finnish products supplied under the CC projects should be able to operate as intended and contribute to delivering project objectives. Where delivery of project objectives is at risk, other factors appear to be primarily responsible. However, in the case of Vietnam’s equipment the project is a small part of a broader programme. Immediate results are uncertain, especially given the uncertainty as to how equipment will be deployed. It is not demonstrated why the equipment is especially well suited to the requirements of the project. In the case of the Hung Yen Water Supply project, the project documentation notes that there is indication that the use of plastic pipes was not most appropriate.

In some cases, there is evidence that the Finnish product appears well-suited to project needs; for example the Central Heating projects in China and the solar energy in Sri-Lanka. Project documentations suggest that these products will work well and

in the case of heating projects evidence of success elsewhere is presented. Technical capacity building for maintenance is built as part of the project, which should help with future maintenance even if some of the trained workers move-on to other job. The main risk in this area is that preventive maintenance often requires significant recurrent financial resources, of 5% or more of investment value per year. Financial constraints may lead to under-maintenance of equipment and shorten their economic life. For instance, the recurrent budget maintenance requirement for the Viet Tie hospital equipment project is particularly high and financial capacity to allocate sufficient budget uncertain.

Investment plans often include an initial budget for spare parts and capacity for maintenance. Exceptions include the Ningguo Hospital in China, where decision on training and spare parts, as well as product guarantee, was not taken at appraisal. Similarly, in the Viet Tiep hospital project in Vietnam, project documentations indicate that, while a budget for maintenance was assumed to be part of project implementation, there are doubts that the need for essential complementary capacity building will be funded within the hospital's budget. This also applies to the Hung Yen Water Supply project in Vietnam.

In some cases, Finnish suppliers are present in the recipient countries or in the region, or state that they plan to expand their presence there. This makes it more likely that technical support and spare parts will be available during the life of the investment. The proposed TA usually includes allocation for narrow training on use and maintenance of equipment. However, the broader issue on TA is that it takes more than technical expertise on use and maintenance of equipment to operate complex investments such as hospitals and power utilities. As noted in the previous evaluation report, CC projects make no provisions for broader TA and project documentation fails to establish that required assistance may be obtained through other means. In some cases, this may undermine the effectiveness (and sustainability) of the projects. An example of this concerns hospitals. In the absence of adequate broad capacity building in areas such as financial management, efficient workflow etc., and the project may fail because of general shortcomings elsewhere and/or because expected resources are not freed-up for maintenance.

5.6 Impact and Sustainability

5.6.1 Overall findings on Impact and Sustainability

Project design has not included M&E systems that would allow tracking what the projects have achieved in terms of poverty reduction. Similarly, M&E of environmental impact is absent for CC projects. The absence of a M&E system does not allow the identification examples of interventions that can be classified as environmentally, economically and socially sustainable.

Generally, the quality of the analysis of sustainability in project-related documentation is average to poor, compared to a similar project documentation of a similar donor for ODA programme. When included, sustainability analysis mostly focussed on the economic sustainability of projects, and on the technical adequacy of equipment/product deliveries. Certain benefits or costs (such as environmental ones) are not fully captured. The treatment of social and environmental sustainability is not sufficiently detailed, tends to be narrow, and quality of analysis is poor. When covered, these dimensions of sustainability are not based on a well-grounded case. This is partly a result of the nature of projects, which are often more product deliveries, rather than focus on building institutions for institutional development. This applies especially to the provision of hospital equipment as well as the majority of projects providing medical equipment; i.e. China and Namibia medical equipment projects, where social and environmental issues are insufficiently covered in project documentations. In such cases, the provision of equipment is viewed as a minor part of larger projects, such as the construction of the hospital, etc. which leads to underestimate the potential contributions of the equipment provided in terms of social and environmental sustainability. In cases when projects have more potential to provide a relatively high poverty impact, e.g. Honduras and Ghana electrification; sustainability is compromised by a lack of analysis of key factors affecting it, such as institutional capacity for maintenance, financial resources available for maintenance, and broader sector strategy and policy, and human resources issues. This is a particularly important need in complex projects, such as the Upscale of Electricity Network Systems in Vietnam.

5.6.2 Are the impacts likely to be sustainable

CC projects often face economic sustainability issues, particularly when expensive and sophisticated equipment is provided in countries with limited financial and staffing resources for operation and maintenance, these costs are often not discussed in most of the evaluated projects. Economic sustainability problems are significant in most projects, particularly in regards to hospital equipment projects and for the maintenance and operation of solar projects and for the upgrading of electricity supply networks. The impact of CCs is likely to be higher when it allows the partner country access to Finnish technology that is world-class and when this is matched to focus on the poor. The project cycle does not produce post-appraisal evidence of impact, and mainly energy projects, such as central heating and solar energy, show some indications of using world-class technology. From these, only the solar energy projects have the potential to target the poor.

Project documents indicate a certain degree of attention on environmental sustainability. In some cases, the intervention logic for the environmental impact is detailed – particularly in the cases of solar energy and central heating projects in China. Nevertheless, most other projects do not provide a satisfactory comprehensive environmental impact analysis and important issues are not covered. Environmental sustainability rarely appears to receive an adequate focus in project documentation. Most conclude that project is environmentally neutral or that potential negative impacts are outweighed by the perceived positive ones; without providing sufficient justification.

The projects generally do not sufficiently focus on sustainability in their design or in implementation. This is of great relevance for larger projects such as the Solar Energy project in Vietnam, where post-sales service and training were not sufficiently specified at the contract level. In other cases such as the Namibia hospital, project appraisal mentions that only training on equipment is covered though this will not be adequate.

Some project appraisals recognize low capacity of partner countries to effectively manage and operate investments. Inadequate local capacities are often also apparent from the weak quality of project documentation or feasibility studies prepared by the partner organization. This is the case for example in Ghana rural electrification project, as noted by the appraisal report. However, it is not clear how concerns of insufficient sustainability due to lack of capacity expressed in appraisal reports were later reflected in project implementation. Due to the specific character of CC projects, which are mostly turn-key type delivery or construction projects, it is unlikely that these issues could have been addressed adequately and in a systemic way, rather than by isolated and one-off trainings.

In Chinese central heating projects, most incorporate adequate technical assistance, which is complemented by seemingly good local capacity. In a few cases, over-staffing may be an issue and could affect the financial viability of the project. With respect to technical assistance, it seems to be a standard approach whereby both on-the-job training as well as training in Finland is provided – the effectiveness of the latter needs to be assessed. However, not even in these projects any post implementation tailor-made technical assistance seems to ever be envisaged, even though it may be needed.

Targeted TA can play an important role in improving sustainable. In a few cases, the TA is provided during project preparation beyond the preparation of appraisal documents (arguably, given the information and recommendation it contains, even the appraisal reports could be considered a type of advisory service). There is little evidence that appraisal teams engaged stakeholders in Government of the civil society in any substantial discussion of sustainability, of risks and on institutional sustainability issues. From this standpoint, concessional projects differ from those of other donors, where enhancing the sector dialogue is always a key aspect of any project, even small ones.

In terms of expenditure, the largest amount of TA is provided during project implementation. Much of the downstream (during or post-implementation) TA is quite narrow and focused on ensuring the equipment is installed and operating, and on training counterparts in its use and maintenance. While limited in scope, this TA appears necessary and quite useful, especially when provided on site and/or in-country. The limited scope constitutes a shortcoming, as capacity building for broader financial, economic, social and institutional issues that are critical for medium- to long-term sustainability, are left unaddressed.

No TA or other complementary financing is ever provided to help alleviate environmental and social costs (notably in the case of Philippines Waterways where up-to

1,000 people had to be resettled). This shortcoming was present even though in its feedback on the report the MFA had directed the appraisal team to revise the appraisal report and free-up financial resources for this purpose.

5.6.3 Have interventions been able to contribute towards sustainable economic results

The economic sustainability of CC projects face a number of limitations. The CC projects have the potential to introduce private sector logic and possibly greater efficiency in many government interventions. However, this has not been generally the case, because most projects do not generate significant revenues. Such weak economic sustainability is particularly significant for hospital equipment projects where the budgets for high technology operation, maintenance and repairs may not be provided by partner countries.

The intervention logic presented in the project documentations suggests that some projects may be more likely to achieve some degree of environmental sustainability, for example the central heating projects in China and the solar energy project in Sri Lanka. The central heating projects in China present argued reasons for expectations of good environmental and economic sustainability – importantly the financial rates of return of these projects are low but positive. This justifies public/donor intervention, so that new technology is adopted more quickly and more people have access to reliable home heating. However, limited involvement of communities in the design and implementation of these projects is only partially compensated by public information campaign. This would tend to affect social sustainability.

Economic sustainability may be further undermined by the fact that, as a detailed review of some appraisal reports would suggest, investment costs may be inflated over otherwise feasible market price. This is due to the fact that in many cases international tendering procedures have not been carried out, or have been carried out in a limited way to comply with the Finnish content requirement. Specifically limited or no competition eliminates the incentives for bidders to present proposal at least cost and investments may be inflated or cheaper sourcing ignored in order to meet the required Finnish content level. The characteristics of the projects mean that there is a limited scope for involvement of local suppliers and sub-contractors. For example in the Honduras electrification project, where the appraisal report states that the projects' unit cost is expected to be almost twice as much as other rural electrification projects initiated by ENEE (partner organization). Such overpricing of initial investment in projects has the potential to outweigh the benefits of concessional financing, and affects their financial and **economic** sustainability. Similar concerns over investments cost arise in hospital equipment projects, where purchasing less sophisticated technology from regional suppliers might be sufficient for local needs, while not burdening budgets with high recurrent costs in maintenance and spare parts, thus contributing to better economic sustainability and higher developmental impact.

Links between economic sustainability and accessibility of the services and products by the poor are not assessed in the majority of projects. This may explain support to projects that are not economically sustainable, but which are not having a significant impact on poverty reduction; as is the case of most hospital equipment projects.

Ensuring the most appropriate technological choice for the country circumstance is also a key. Economic analyses in feasibility studies are mainly based on projections with or without the project. But, there is not any analysis of whether there would be another different type of investment that would deliver the desired results, but through a different composition of investment. Using the Vietnam Haiphong Storm Water project to illustrate this, one could have theoretically considered the trade-off between preventing floods by building levies in addition to the existing dam versus building pumping stations. Irrespective of the possible superiority of the proposed approach, such an analysis is not presented.

5.6.4 *Discernible factors considered necessary for the sustainability of results after the closure*

The participation of partner governments (national and/or local) in CC projects is critical to project sustainability. The project documentation shows some evidence of partner government participation. However, in many cases there is also evidence of a strong role from the Finnish exporter from the start of the project, while the quality of feasibility studies (as evidence of commitment and capacity of local government) is often poor.

Governments or local partners in many cases provide some financial contribution to the implementation of the projects (mainly in commitments to provide budgets for operation and maintenance costs). Partner contributions may be in the form of tax relief for the project activities (e.g. in the Philippines project) that may not fully address funding issues. However, it is important to realize that the ODA grant in concessional loans only cover the interest of the loan, and the partner country institutions will be repaying the full amount of the investment cost. This commitment constitutes a valid reason for expectations of government continuous support for the project activities and interest in its outcomes.

In general, the financial contribution for maintenance is often not adequately ensured, e.g. in the hospital equipment projects. Besides project appraisals repeatedly stresses the need to adjust project budget or composition to include maintenance – for some projects this may be as high as 10-15% of total operating cost – the buyer is reluctant to take this into account in the majority of cases and the exporter appears to have little interest in amending this area. In addition, project documentations do not generally take sufficiently into account the capacity requirements of personnel in order to further maintain projects delivered on turn-key basis; for example in significant technology upgrade in Vietnam MiniScada project, where appraisal reports notes that good project management and availability of human resources will be a great challenge to the parties; or hospital equipment projects in China and Vietnam.

5.6.5 *Role of crosscutting issues of Finnish development policy*

The CC projects have generally not considered strongly the role of gender, marginalized group, or HIV/AIDS; so the relevance of these issues on sustainability of projects could not be established. Considerations of cross-cutting issues were not generally found even in projects where such considerations would have been somewhat expected. For example, the Namibia hospital project does not focus on HIV/AIDS even though this is one of the most serious problems facing the country, and especially the poor communities, with disproportionate repercussions affecting women and children. Similarly, the Chinese Jinhua hospital equipment project for women and children fails to consider the gender impact of excluding maternity services from the hospital. Gender analyses in project documentations tends to be weak, and resort to general statements of improving conditions for women, or not excluding any groups from benefiting from their results. This is a significant short-coming of CC projects.

5.6.6 *Value-added in the promotion of environmentally sustainable development*

It is likely that the few projects with strong environmental focus such as the Sri-Lanka solar energy and the China central heating projects are providing a significant value-added to sustainable development. According to the documentation (which does not include post-appraisal reports) these projects are good examples of what can be achieved with Finnish environmental technology in developing countries.

5.7 Complementarity, Coherence and Coordination

5.7.1 *General observations*

The total Finnish aid is not considered here because it is well outside the scope of the present evaluation and because it operates at the national level, even if overlaps may exist in the case of CC health and infrastructure projects. There are thus two relevant instruments, complementary to the CC scheme to study: Finnfund and Finnpartnership, both of which are managed by Finnfund.

5.7.2 *Are program and projects coordinated with other donors/ other ODA instruments*

A main finding of the present review is that CC projects are largely formulated as enclave activities with limited consideration given to ensuring complementarity with other donors including other forms of Finnish ODA, and/or coordinating with them beyond a low level (such as consulting a World Bank staff on shadow pricing or referring to a particular environmental manual). The institutional culture of CCs may not have evolved as rapidly during the past decade as the aid effectiveness agenda or the recommendations of the 2007 DAC Peer Review (OECD 2007).

The characteristics of the CC projects do not make it easy to coordinate with other donors supporting related projects. Coordination is time consuming and it has mainly a development objective. The CC projects often originate with a strong input from the exporter, which has limited time to integrate its business projects with broader national and sector policies. In many cases, the capacity of partner governments to prepare for these projects is limited. Governments devote limited capacity and resources to ensure the adequate coordination of the CC interventions. In view of the observations, the conclusion of this evaluation is that, there is practically no harmonization with other donors, including broader Finnish aid.

In order to ensure coordination, the feasibility studies and the appraisal reports would have needed a discussion with other donors working on similar projects and/or in the target area, or presenting evidence that the partner government has ensured the complementarity of the Finnish intervention. This is important not only in order to avoid duplication, so as to achieve complementarity of interventions but also in order to learn from the experiences of other donors. For example, the latest EU strategy for Vietnam identified the problems in its programme to supply equipment for hospitals (recurrent budget, maintenance, etc). These problems are exactly the same problems reported in the 2003 evaluation of CCs and also the ones recorded in the appraisal reports of many of the health projects we have reviewed. This situation may have improved quite recently. In Vietnam discussions with other donors in the Health sector have taken place in the context of the studies of CC Project Portfolio Development and Management in Health Sector, Vietnam. Furthermore, EU documentation has been used to underpin decisions to drop two hospital projects from the pipeline and strict scrutiny of the remaining two.

The review of project documentations available did not find any evidence of significant coordination between the Finnish CC projects and other projects. Better donor coordination and consultation could have resulted in improved targeting of the poor. But, there is no evidence that this was pursued. Consultations with all stakeholders might have also helped improve broader socioeconomic impact, notably in the case of flood control in the Philippines. While many people living in low-lying coastal areas are expected to benefit from it, the project involves the resettlement of about 1,000 poor people by the authorities. According to the World Bank national procedures do not follow best practice in the Philippines. One would expect from an ODA funded project to be cognizant of such issues; it may have also exposed Finland to reputational risks.

The enclave approach used in defining the contours of CC projects and limited consultations may have resulted in missed opportunity in enhancing various aspects of sustainability by drawing upon possible synergy between projects. An example of this is the Vietnam Storm water project, where a temporary road was built, even though according to project documentations the World Bank was planning a more permanent one. It is likely that two construction projects on the same site would exacerbate the overall environmental impact.

Multilateral donors and governments conduct regularly poverty assessments and poverty mapping in many countries. There is no evidence that such resources were drawn upon for instance to decide where to locate a project so that it targets the poor as much as possible. When tariffs and fees are involved (such as the in the case of heating in China), by working closely with donors involved in this aspect of price setting and related regulatory processes the CC projects could have validated the assumptions regarding the affordability of access by the poor. In other cases where a subsidy from local governments is required, working closely with donors involved with municipalities, cities or regions would have provided a reality check on whether these entities are likely to have the fiscal space and the budget allocation mechanisms needed to operated and maintain the investments – this is cited as a risk for a number of projects in Vietnam.

As noted above, the degree of direct community participation tends to be limited and at a fairly general conceptual level. Many larger donor projects covering a particular sector and/or region of a given CC project should include stakeholder/community participation as part of their governance structure. In the spirit of donor harmonization, CC projects could have used such structure to deepen community participation in their design and implementation.

CC projects are operated generally by the public sector and the opportunity to bring-in the private sector as operators, concessionaires or investors is not mentioned. Closer donor coordination and greater reliance on multi-donor facilities such as Public Private Infrastructure Advisory Facility, (<http://www.ppiaf.org/>) might have helped to better exploit the potential for private participation by focusing Finnish ODA on non-commercial elements. This approach would have been valid even in the case of non-revenue generating projects such as dredging, where concessions/management contracts could be experimented with. Collaboration with donors should be used to alleviate problem of poor or lacking M&E by making use of existing M&E.

5.7.3 *Are the interventions additional or complementary to those of other donors*

The CC project documentation does not generally provide evidence that projects are complementary to those of other donors. In most cases, there is no discussion at all of how Finnish intervention link to those of other donors in the same relevant sector/activity. This is partly explained by the fact that, as noted above, many of these projects originate with a strong input from the exporter. There is also limited time during appraisal to coordinate and discuss interventions with other donors, much less to ensure that interventions are actually complementary.

On the other hand, the positive contributions of Finnfund to Finnish Development Policy are confirmed in Finnfund's 2010 audit report: "Finnfund has achieved the broad objectives that have been set for it in legislation. The company's operating strategy supports the Government Programme and the achievement of the objectives in

the Government's development policy programme. Finnfund's activities make a significant contribution in achieving Finland's development policy objectives, and its activities could be given more attention in preparing the Government's next development policy programme."

While generally the feasibility studies and the appraisal reports do not include any discussion of complementarity, there are some cases where projects may have contributed to this objective. In the case of Sri-Lanka hospital equipment, the appraisal report had some discussion on the activities from other donors, e.g. Austrian aid support to seven hospitals also part of the Finnish programme. Similarly, in Vietnam (Viet Tiep Hospital) the project documentation refers to the contributions of France and the Czech Republic – also confirmed by the Finnish Embassy in Vietnam. By contrast, the project documentation of the Namibia hospital equipment project shows very little connection with donors in the area and particularly the Global Fund.

In some energy CC projects complementarity is achieved to a certain extent when the Finnish intervention is part of national electrification schemes (Ghana) or national electrification investment plan (Honduras). Assuming that the national electrification and investment plans are discussed nationally and with international partners, then being part of these plans ensures some degree of complementarity with other donor interventions.

The TA budgets tend to be focused on the narrow and short-term technical aspects of project implementation and equipment maintenance. CC projects could have linked-up with donors active in similar areas, to ensure that any complementary and medium-term TA needed is also covered. Partner governments in CC projects often interact in CC projects. However, insufficient financial resources for operations and maintenance, and other activities linked to sustainability is identified as a risk in many projects. Given that other donors are often working with the same entities, better collaboration and pooling of resources would help alleviate that risk.

5.7.4 *Are Finnish development and commercial policies working towards same objectives on the concessional credit scheme*

The two instruments, Finnfund and Finnpartnership together with the CC scheme and the guarantee Finnvera brings to its projects, constitute the full range of Finnish support to trade for aid. The above review suggests that Finnfund may be an important contributor to Finnish development policy. In practice, while complementary, the focus of each of these instruments is quite different. CC has primarily commercial objectives and support Finnish exports. As designed at present, the commercial aspects of the CC and Finnpartnership programs appear to outweigh their developmental impact. Finnvera is a much larger scheme aimed at supporting Finnish enterprises and the guarantee it provides to CC projects account for less than 1% of its total business. Finally, by and large, Finnfund has a development focus, even if Finnpartnerships may not be sufficiently oriented towards meeting developing coun-

tries' demand (see next chapter). A feature shared by all these schemes, except for the CC scheme, is the availability of up-to-date annual reports on activities and performance, and good transparency. Another important factor is that Finnfund works with private firms in developing countries whereas the CC scheme remains oriented towards the public sector. The overlap of clients between the two schemes is minimal.

Closer collaboration between Finnfund and the CC scheme would allow the MFA to focus on ensuring adherence to policies, overseeing its overall implementation progress and evaluations. There would be economies of scale in management and field supervision, as such quite beneficial at least at the level of daily management. Finnfund could have been mandated to ensure better record keeping and conduct M&E, and seek opportunities to involve the private sector of developing countries in CC schemes. The question is if there is any connection between CC projects and any other Finnish interventions.

The analysis of the fiches suggests that CC projects are designed as enclave activities with no or limited linkages to other Finnish interventions, and indeed that of other donors, and not typically designed to bring value-added and/or reinforce such programmes. Furthermore, while the value-added of CC projects appeared strong for Finnish exporters, the benefits for beneficiaries tended to be less evident.

On policy level the above review of Finnfund suggests that it may, through its own services and the Finnpartnership scheme it manages, be an important contributor to Finnish development policy. Strong points of the scheme include its professional management, transparency, its apparent efficiency and incorporation of cutting-edge approaches, as well as its positive development impact through improved access to finance. The outcome of project fiche review suggests that CC projects are aware of and refer to the Finnish development policy. But, it does so superficially at times and there is no attempt to show the relationship and complementarity between various instruments. The main benefit of the CC scheme over other forms of aid appears to be in terms of additionality, in the sense that it allows Finland to support sectors or activities in countries that would not be otherwise included.

The links and coordination between CC and other ODA interventions do not seem well established to provide for CC value-added and mutual complementarity. The CC process ensures the main goals of development policy are largely reflected in CC project design, but in most instances this remains mainly in the form of going through a checklist. As a result of this important issues may be missed (such as that of disposal of waste products in hospital projects, a key environmental, and health and safety issue). Furthermore, the limited capacity of Embassies, as exemplified in Vietnam despite best efforts, constraints their capacity to monitor project implementation.

The review to-date did not find any notable incoherence in this area, except perhaps in the health sector where equipment should not have been the top investment pri-

ority. Furthermore, it was unclear whether CCs in a country tackle the most pressing priorities, especially from the point of poverty alleviation. There is some evidence from the fiches that this is not the case – for instance the poorest of the poor are rarely targeted.

5.8 Finnish value-added

The CC scheme is a development tool that should provide an innovative way for the Finland private sector to make substantial contributions to development. However, our evaluation found limited evidence that these benefits are being realised. In practice most CC projects are enclave activities that are generally not well integrated within a coherent sector strategy or indeed, in the absence of interest subsidies that affect preferences, highest unmet priorities within such a strategy. As elaborated below, many projects are standard in nature and there is no special value-added associated with the investment goods being sourced from Finland; Central Heating projects in China constitute an apparent exception and possibly solar energy. Finally, there was not a single instance where an attempt was made to involve the private sector in the project, although this would have been feasible.

In the majority of cases project documentations fail to establish whether the Finnish export product is superior in quality and cost-effectiveness compared with the national equivalent or to that of another country. Frequently, it appears that better/less expensive or smaller scale alternatives were available and the project was strongly driven by the interest free credit, which decreased the financial cost of the investment but not its economic one. There was one exception to this general observation in the case of District/Central heating projects in China. In this case, an important determinant factor appears to be that the particular solution offered (centralized heating of many building) is most appropriate for cold climates and high-density construction. Apart from Finland, these conditions can be found in China, Russian, Mongolia and Eastern European countries, such as Poland. The know-how is quite specific and international competition limited. For these reasons, there is a credible case whereby Finnish technology is appropriate and, subject to ex-post verification, competitively priced.

In general, technological choices may have been overly sophisticated, for example, health projects and tractor projects in China. As the technology has not been deployed taking into consideration the need of the poorest, in many cases there is an issue of affordability of the benefits, particularly in the presence of user fees (as in health sector and energy projects, in China, Vietnam and Honduras). Examples of sophisticated high technology also include the Vietnam upgrading of the electricity supply network project, which require management skills and human resources that only few companies can provide, and hospitals projects in Vietnam. No significant degree of community participation at design and in the choice of technology was reported.

Environmentally Finnish technology may have been supportive as in the cases of central heating in China. Similarly, in the Sri Lanka solar energy project Finnish exporter has solid expertise in the solar energy technology, and substantial expertise in developing country settings, the appraisal report states that the products are state-of-the-art technology, efficient and durable. However, no evidence of superiority to others has been provided. In the case of Ghana, the assessment stated that supplies from Finland would be suitable, and that the most competitive equipment in the project was low voltage accessories of basic technology.

Finnish value-added in CCs was not focused primarily in environmental issues. However, China central heating and Sri-Lanka solar projects provide ex-ante some potential for supporting environmental sustainability. More generally, there is the expectation that projects focus on environmental issues, clean energy, alternative energy are more likely to provide the best of Finnish technology to developing countries. The environmental contribution of other projects involving the provision of equipment for hospitals, tractors or firefighter equipment is less clear. Discussion with MFA officials suggests that they recognize this issue and are considering ways to improve targeting this dimension of sustainability.

The impact of the selection of Finnish technology on poverty, and economic, social and environmental sustainability appears quite limited. There are a number of projects (notably tractor and hospitals), where the evaluation team did not find strong evidence based on a-priori information that countries reaped significant benefits from the adoption and purchase of Finnish technology. In addition, as procurement has not been competitive and the comparisons presented in appraisal reports are limited; so it is possible that these decisions have contributed to sub-optimal projects and choices.

There are very few cases, if any, where Finnish specific know-how contributes to poverty reduction. The central heating projects in China are an example, even if some of the benefits are indirect (health) and the poorest of the poor do not benefit directly from the project.

Finnish Technical assistance could constitute an important part of the Finnish value-added contribution. However, upstream (prior to implementation) TA is focussed on narrow issues. Other donors use TA to enhance the sector dialogue and this is always a key aspect of any project, even small ones. Upstream TA provided to the beneficiary country, is in this case largely a commercial instrument focused on improving the acceptance of the Finnish product. Downstream/implementation TA is focused on ensuring the equipment is installed and operating, and to train counterparts in its use and maintenance. While limited in scope, this TA appears necessary and quite useful.

5.9 Is project management by Finnvera and MFA efficient

The process leading to the approval of CC projects has many dimensions that contribute to its overall efficiency. They includes:

- (a) proactivity of the supplier, often accompanied by existing or promise of future local presence;
- (b) ownership of counterparts, especially when they contribute to project formulation and implementation cost;
- (c) inputs provided by various teams involved on the Finnish side in the decision making process, including the MFA and the consultants (usually Ramboll); and
- (d) the quality of the documentation produced, especially with respect to coverage of issues, depth, objectivity. What follows, focuses on the latter two aspects, with special emphasis on the appraisal report.

On the basis of the review of project documentation and discussions with stakeholders, we concur with the previous evaluation that project management capabilities are limited by the small number of staff in the MFA. The MFA relies heavily on consultants for the pre-assessment and the appraisal of projects. The appraisal reports are the key documents for decision-making. They provide some coverage of narrow project issues, but lack in-depth independent analysis and at times necessary objectivity. Furthermore, important issues are often not discussed. Cases include uncertainty over the supplier, reliance on yet to be created agencies, and how the equipment financed is to be deployed. This was an issue in the case of the Vietnam firefighting project (appraisal document silent on options presented in the feasibility study) and some hospital equipments in Vietnam.

Using standards of other institutions, such as the World Bank, CC appraisal reports meet requirements and content coverage for pre-appraisal documents. The appraisal reports include many repetitions of the same texts used in other reports and sometimes some sections simply duplicate others within the same report. There is some evidence of good feedback from the MFA on appraisal reports. However, in the case of the Honduras rural electrification project, MFA approval was granted, even though the appraisal team had raised significant concerns and had not been able to make a recommendation in favour of proceeding with the CC.

While some projects are processed speedily and effectively (2-3 years between feasibility and implementation) others have taken as much as 5 years or more from preparation to implementation. For example the Vietnam Hung Yen City Water initiated with a feasibility study in 1997 but implementation started in 2009. Similarly, the Vietnam Viet Tiep Hospital was initiated in 2003 but project implementation only started in 2009. Internal processes in Vietnam may partly explain the long lead time, but do not fully account for delays or justify use of stale feasibility studies.

Another delaying factor is insufficient counterpart funding being available, resulting in scaled-down and/or delayed projects: in the case of Philippines a project started

in 2003 but had to be scaled down due to funding issues, resulting in a 3 year delay. In a handful of other cases where project processing is relatively short, this may have been at the cost of quality. For instance the Ghana Rural Electrification project was initiated in 2008 and implementation started in 2009. However, the project was undermined by a very poor feasibility report. In order to proceed with the appraisal of this project the MFA decided to categorize the activity as general sector support rather than a project.

Notwithstanding the earlier mentioned differences, closer collaboration between Finnfund and the CC scheme would have been quite beneficial at least at the level of daily management. Such an arrangement would have allowed the MFA to move away from daily administration of the scheme and periodically oversee its overall implementation progress instead. There would have been economies of scale in management and field supervision. Finally, Finnfund would have been mandated to ensure better records keeping and conducted M&E. Another benefit of Finnfund involvement is that opportunities to involve the private sector of developing countries in CC schemes might have been pursued more effectively.

6 FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

The evaluation questions in the TOR have been regrouped around five criteria: (i) relevance; (ii) effectiveness; impact and sustainability; (iv) efficiency; and (v) complementarity, coherence and coordination. Due to its critical importance as a cross-cutting theme affecting every aspect of the, review M&E is treated as a separate evaluation criteria. Before expressing conclusions on the present findings of this evaluation, attention is drawn to Box 4, which presents the issues still unresolved from earlier evaluations.

While many of these recommendations have remained unaddressed for a decade or two, there has been growing recognition of the need to alleviate the underlying problems in order to enhance the efficiency of the program. To this effect, the MFA has started a process aimed at implementing many past recommendations, especially concerning procedures and programme management. However, there is apparently no specific comprehensive action-plan, discussed and endorsed by stakeholders, which would help ensure that important matters are not left out. Similarly, resources for in-depth implementation of recommendations may not be available. The present report recommends that these two issues be addressed.

Box 4 Lessons learned from earlier evaluations.

Many important recommendations of the 2003 evaluation and DAC Peer Review still remain valid. Following issues are still unresolved:

- Put greater focus on developmental impact of projects.
- Enhance monitoring, through field supervision and improved client's reporting.
- Streamline decision making.
- Undertake more in-depth field appraisal.
- Untie aid. As a lesser alternative, increase reliance on international competitive bidding, pay greater attention to pricing, consider alternative technology options and make eligible goods procured from
- Undertake institutional strengthening.
- Implement procedures for improved M&E and systematic filing system of all relevant documentation.
- Provide adequate counterpart funding and training, make provisions for spare parts.
- Give greater consideration to conditions under which the equipment will operate and to local management capacity.
- Strengthening environmental management.
- Undertake independent investigation certain health projects.
- Recruit professional staff to strengthen CC management and provide adequate human resources to the programme.

Sources: WaterPro Partners Ltd 2003; OECD 2007.

6.1 Findings of this evaluation

Many of the recommendation of past evaluations are still relevant. The findings from chapter 5 have been summarized in the list below. In the left column a specific rating is given by the evaluation team to each criteria. These ratings are as follows: (1) highly satisfactory; (2) satisfactory; (3) marginally satisfactory, (4) mediocre; (5) marginally unsatisfactory; (6) unsatisfactory; and (7) substandard, i.e. the higher the number, the higher rating. The ratings reflect the team's best judgement based on the findings and average assessments, around which there may be significant variations. For instance, by and large, heating projects in China represents the strongest aspect of the CC portfolio, while the ones in health represent the weakest. The right hand column presents proposed improvements as a result of this evaluation.

Monitoring and evaluation – Rated 7.

The CC scheme at present does not incorporate best practice: indicators and intended results are not clearly defined, measurable and/or attributable to the project, and results are not monitored systematically or comprehensively, as required by laws and regulations. This longstanding shortcoming is due to non-respect of the scheme's procedures, lack of attention during project preparations, and the absence of human

and financial resources to undertake this task. Certain Finnish representations in beneficiary countries have recently carried out visits to some of the CC projects. However, these visits constitute imperfect, ad-hoc monitoring.

Relevance – Rated 5.

The promotion of economic and social development is generally not reflected at project level. The development focus of CC projects is often less prominent than the commercial one. The intervention logic for development of CCs is often not emphasized or is not sufficiently rigorous. There is often participation of some elements of government in projects, but rarely of local communities. Project documentation provides some evidence that these CC projects are generally non-viable financially; and therefore appear to comply with the letter of OECD DAC requirements. However, in the case of many commercial projects, different assumptions on price or smaller scale projects would have improved viability to the point their eligibility under OECD rules might be questioned.

Effectiveness – Rated 4.

From a narrow standpoint, this is the highest rated criteria. The quality of feasibility studies is generally inadequate. A relatively high proportion of projects are at risk of not achieving their intended objectives. Nevertheless, the majority of projects are likely to achieve their intermediate results; investments should operate as intended and contribute to delivering project objectives. Investment plans often include an initial budget for spare parts and capacity for maintenance as well as narrow technical assistance. However, preventive maintenance often requires significant recurrent financial resources. Financial constraints may lead to under-maintenance of equipment and shorten their economic life and broader technical assistance needs may not be satisfied.

Impact and sustainability – Rated 6.

Project documentation generally does not focus in developing the intervention framework logic for raising people from poverty, even as a higher-level objective (i.e., an outcome it influences) and expected impact on poverty of many CCs appears weak. Environmental factors have not been generally analyzed carefully in such projects, even though project documents indicate some attention to environmental sustainability. CC projects often face economic sustainability issues, particularly when expensive and sophisticated equipment is provided in countries with limited financial and staffing resources for operation and maintenance. Economic sustainability problems are present in most projects. The impact of CCs is likely to be higher when it allows the partner country access to Finnish technology that is world-class and when this is matched to focus on the poor. There is no post-appraisal evidence of impact. Mainly energy projects seem to use world-class technology. The CC projects have generally not considered strongly the role of gender, marginalized group, or HIV/AIDS; the relevance of these issues on sustainability of projects could not be established. Some projects are not sufficiently justified by economic analysis and delays in approval may radically change the rationale for others.

Efficiency – Rated 5.

Product quality does not seem to be an issue. Many CC projects do not appear likely to produce the intended impact in a cost-effective way, partly because of the limited competition in procurement. Certain CC projects are also quite complex. This contributes to long processes. Project management capabilities of the scheme remains limited by the small number of staff in the MFA. The MFA relies heavily on consultants for the pre-assessment and the appraisal of project. Technical documents are generally of poor quality. Despite the use of expensive consultants, appraisal documents are also generally superficial and repetitive, copying from other similar reports; particularly sections referring to poverty impact or social sustainability, gender issues, HIV/AIDS and disadvantaged groups. The appraisal reports are the key documents for decision-making. They provide some coverage of narrow project issues, but lack in-depth independent analysis and/or necessary objectivity, and often fail to discuss important issues. In some cases, the appraisal reports present information that suggests potential over-investment in commercial projects that reduces diminish cost-effectiveness. Finally, a few projects are processed inefficiently and take as much as 5 years or more from preparation to implementation.

Complementarity, Coherence and Coordination – Rated 7.

Projects are largely formulated as enclave activities with limited consideration given to ensuring complementarity with donors and/or coordinating with them more than superficially. CC projects are often supply-driven and the incentives are quite low to consider broader national and sector policies. Governments seem to devote limited resources to ensure the adequate coordination of the CC interventions. Projects are operated within the public sector and the opportunity to bring-in the private sector as operators, concessionaires or investors is not considered. Possible results of the public option include greater administrative and financial burden on over-extended governments, limited review of technical alternatives, and missing-out on private sector management and know-how. Collaboration with donors might have alleviated the problem of result monitoring, by relying on existing data gathering systems. Projects refer to the Finnish development policy and seem within government policies, except perhaps in the health sector. Nevertheless, CC projects are designed as enclave activities with no or limited linkages to other Finnish interventions, and indeed that of other donors, and not typically designed to reinforce such programmes. The links and coordination between CC and other ODA interventions do not seem well established to provide for CC value-added and mutual Complementarity. The CC process ensures the main goals of development policy are largely reflected in CC project design, but in most instances this remains superficial, mainly in the form of validating a checklist. Finally, quality of projects is diminished by the absence of any significant attempt to alleviate financial pressures on over-extended counterparts by seeking possible complementary private participation. Such an approach would see feasible not only in the case of commercial activities, but also those with greater social orientation.

Finnish Value-Added – Rated 6. Finnish Value-added through CC projects appears limited primarily to the funding provided. In practice most CC projects do not

provide an innovative way for the Finland private sector to make substantial contributions to development. Projects are generally not well integrated within a coherent sector strategy or, in the absence of interest subsidies, highest unmet priorities within such a strategy. Furthermore, many projects are standard in nature and there is no special value-added associated with the investment goods being sourced from Finland. In some cases, better/less expensive or smaller scale alternatives were available and the project appeared strongly driven by the interest free credit, which decreased the financial cost of the investment but not its economic one. Some technological choices may have been overly sophisticated. Finnish Technical Assistance, while narrow in scope, appears necessary and quite useful. Environmentally, Finnish technology may have been useful, even if no evidence of superiority to others has been provided. The impact of the selection of Finnish technology on poverty, and economic and social sustainability appears quite limited. There are very few cases, if any, where Finnish specific know-how contributes to poverty reduction.

6.2 Conclusions

The analysis presented in this report lead to an inevitable conclusion: the Finnish CC Scheme suffers from serious design and implementation flaws that prevent it from being an effective instrument of development for the second decade of the 21st century and beyond. Insufficient transparency and the narrow enclave nature of the Scheme expose it to governance issues and diminish its effectiveness. As a leader in promoting development effectiveness and untying aid, Finland should give serious consideration to shifting to a more effective instrument and heading the calls of developing countries, further reinforced by the DAC Peer Review recommendations, to move away from the tied aid built into CC scheme. Having examined options that range from maintaining the scheme with some changes to developing new instruments, the present evaluation concludes that the CC scheme has from the development standpoint, become obsolete and should be closed in an orderly fashion. The preferred solution is to recommend an orderly exit from the scheme.

6.3 Recommendations

Regardless of the obvious conclusion of orderly exit from the CC scheme, which is the preferred option of the evaluation team, the above findings and conclusions and the issue of responsibility for program management in the short- to medium-term needs to be addressed. The MFA faces potential conflict of interest as the institution responsible for formulating procedures and ensuring adherence to these; project approval; shared implementation support and review responsibility; monitoring of results together with embassies; and project and program evaluation.

While recognizing that there is a significant degree of ownership of the program within MFA and a strong preference within the institution to maintain current ar-

rangements, the past record and evaluation findings strongly argues in favour of outsourcing program implementation (adherence to policy, overseeing appraisal, M&E, implementation review) while MFA would retain core policy, approval and oversight functions. However, there is disconnection between policies and implementation. Implementation of projects with stricter adherence to policies and guidelines would improve results.

The daily management of the CC scheme should thus be moved to an existing agency or to the core of the Finnish ODA management. A decision on this issue is urgent and needs to be implemented within the next few months.

Most of the key recommendations of past evaluations had not yet been followed-up at time the evaluation was undertaken (MFA is just acting on this issue) and lessons learnt not integrated into how the scheme is managed and implemented. Stricter follow-up on earlier recommendations would clearly improve results of the undertakings. These challenges are indicative of the need to undertake an overhaul of the implementation arrangements, with MFA focusing on areas of comparative strength. The allocation to the schemes could thus be transferred to other promising programs, possibly Finnfund. Another, less desirable, alternative would be to allow for an open competitive procurement process, to either EU countries or preferably to all suppliers, while addressing the main weaknesses listed above and specific issues highlighted in the present and past evaluations. Following recommendations would address part of the challenges:

(a) Quality project documents. The quality of project documents needs to meet higher standards. These documents should follow an improved standard form and require some degree of community consultation. These reports should be studied by the Finnish experts and Finland should provide a relatively quick response on the merit of the project based on the feasibility study. The formal appraisal would only be carried out for projects that are underpinned by a strong and recent feasibility report. Most past appraisal reports have been carried out by team of consultants managed by selected consultancy firms and have not been of sufficient quality. Instead of the current framework contract approach limited to Finnish firms, an open tender process should be used for these assignments so as to encourage the use of a more independent and technically sound economic and social analysis. It is important that the appraisals reports take into account the local conditions (including community involvement, availability of local funds for maintenance, local technical capacities, etc) and that they focus on the ways in which sustainability of the projects can be strengthened, i.e. the use of social businesses, etc. Most importantly, there should not be any approval of a project lacking a clear results matrix and baseline for indicators.

(b) Management of CC records. CC-ODA subsidy is equivalent to 4.5% of all Finnish ODA and approximately 10% of total Finnish bilateral ODA. At country level (e.g., China and Vietnam), CCs are a large part of the Finnish bilateral ODA budget. The records of these significant expenditures of Finnish public funds need to be

put in order. Many feasibility studies, appraisal reports, and other documents for CC projects are not available to Finnish officials and taxpayers. This constitutes a significant breach of normal administrative procedures. The spending of public money requires the adoption of more formal and accountable system, where documents for the project are saved and made publically available – confidential material could be subject to restricted access.

(c) Financial and human resources. There are insufficient human and financial resources allocated to scheme to promote its efficiency and ensure it functions well. Allocation of more resources would improve efficiency. At least part of the implementation problems experienced by the scheme can be attributed to insufficient funding of management cost. A budget at least 2-3 MEUR would be needed in 2011 for the implementation of above recommendations. If budget regulations allow, this resource envelope might be carved out of the allocation to the CC scheme.

(d) Financial management. Irrespective of whether or not the concessional CCs are retained, a new information and accountability system should be put in place, complemented by a systematic and annual financial audit according to internationally accepted norm of all ongoing CC projects.

(e) Post-implementation monitoring. One crucial recommendation refers to improvement of post-implementation monitoring which has been a clear requirement expressed in the policy guidelines. However, no clear mechanism has been defined, nor has post-implementation monitoring been part of the standard procedures so far. Impact of the new guidelines from 2008 was not yet visible during this evaluation, but improved institutional arrangements to address this is a central tool for improvements of the scheme.

6.4 Additional options

While maintaining the scheme, which is evaluation team's distant third priority, over a transitory period by implementing above recommendations, the preferred option is (a) orderly exit with (b) untying of aid and addressing outstanding issues as a second best.

(a) Orderly exit. Such a step would involve winding-down the CC Scheme during 2011 and considering the reallocation of its resources to aid for trade or other aid programmes. Clearly pursuing such a step would involve addressing transitional issues, such as how to deal with the pipeline of projects under preparation, and building a political consensus. For these reasons, the best approach would be a gradual one involving and orderly suspension of the scheme during 2011, during which time not only can these issues be addressed, but also, if thought necessary by stakeholders, a complementary evaluation of project implementation and results can be undertaken. A final decision on closing the scheme would be taken in 2012, effective that year.

(b) Untying of aid and addressing outstanding issues. The MFA recognizes that many of the problems facing the scheme that have persisted for two decades should be dealt with now, and has recently begun to do so. This constitutes a good but insufficient start that requires full and rapid implementation of the required changes as well as totally eliminating the Finnish content requirement. Nevertheless, even such an approach would be suboptimal in the sense that in the opinion of the evaluation team the revised scheme would not be as effective and responsive to development needs of countries as other instruments of Finnish aid.

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ANNEX 1 TERMS OF REFERENCE

Evaluation of Finnish Concessional Aid Instrument (89858301)

Terms of Reference

1. BACKGROUND

1.1 Development Policy

The Government of Finland approved a new development policy in 2007. According to this policy the major objective of Finnish development cooperation is sustainable development as a key to poverty reduction. Accordingly, the policy states that “eradicating poverty is possible only if progress in developing countries is economically, socially, and ecologically sustainable”.

As one means of achieving the poverty reduction goal, the current Finnish development policy promotes strongly the concept of trade and private sector development as key drivers of economic development and subsequently poverty reduction. Progress in business, industry and commerce is supported through Aid for Trade. Finnish Aid for Trade is channeled through the traditional development cooperation instruments, one of which is the concessional credit scheme.

The Finnish development policy provides that the concessional credits are used particularly to support environmental and infrastructure projects which are based on the national development policies of the recipient countries. Thus, all projects must be in line with the poverty reduction and environment strategies and policies of the recipient countries.

1.2 Concessional Credit Scheme

Finland has had a Concessional Credit Scheme for developing countries since 1987. The aim of the Concessional Credit Scheme is to promote economic and social development in developing countries by making use of the experience and technology possessed by Finnish companies. Under the Scheme, the financing of exports to developing countries is supported by granting interest subsidies out of Finland’s development cooperation budget. The recipient of the credit pays no interest. Concessional credits can be granted to low income countries and lower middle income countries to support their economic and social development.

The issuance of a concessional credit is regulated by Act 1114/2000 and Government Decree 1253/2000. Decisions on the granting of interest subsidy on a concessional credit are made by the Ministry for Foreign Affairs of Finland (MFA), and concessional credits are guaranteed by Finnvera (the Official Export Credit Agency of Fin-

land). Finnvera is also responsible for Finland's compliance with the OECD Arrangement on Guidelines for Officially Supported Export Credits. All banks operating in the European Economic Area may act as lenders.

According to OECD a concessional credit may be granted only to projects that are commercially non-viable. A project is commercially non-viable if it lacks capacity to generate cash flow sufficient to cover the operating costs and debt service costs, and if the project cannot be financed on the market or OECD terms. In most cases, projects are implemented in the public sector. In 2009 there was a total of 65 on-going concessional credit projects supported by Finland out of which 43 was placed in China and 10 in Vietnam. The proportion of concessional credits was 1,8 % of development cooperation disbursements in 2008.

1.3 Other Instruments for Finnish Companies

In addition to the concessional credits there are also other instruments used to promote business cooperation between the Finnish companies and those of the developing countries.

Finnfund is a Finnish development finance company that provides long-term risk capital for private projects in developing countries. Finnfund co-invests with Finnish companies, finances ventures that use Finnish technology, and cooperate with Finnish partners on a long-term basis. Finnfund's financial instruments are: equity financing, investment loans, mezzanine financing, guarantees, and co-financing.

Finnfund is also responsible for the management and implementation of the Finnish business partnership programme, Finnpartnership. It provides advisory services for the business activities of Finnish companies in developing countries as well as financial support in the planning, development and implementation phases of a project.

2. OBJECTIVE AND PURPOSE

The objective of this evaluation is to have an independent expert assessment of the Finnish concessional credit instrument as well as to have an assessment on how the Finnish development policy and the focus on sustainability, particularly environmental sustainability, has been taken into account in the concessional credit interventions.

The purpose of this evaluation is to identify concrete results and achievements in the Finnish concessional credit scheme, with particular reference to the sustainable development approach, especially from the dimension of environmental sustainability. The purpose is also to draw lessons from past experience, in order to further develop the concessional aid instruments.

The users of the results of the evaluation are decision-makers and planners of development cooperation and, in particular, the stakeholders of the development credit instrument, as well as those who evaluate other aspects of Finnish development cooperation.

3. APPROACH

This evaluation will run, as much as possible, in parallel with another wide, umbrella type of an evaluation, namely “Evaluation of the Sustainability Dimension in addressing Poverty Reduction”. The teams of both evaluations are expected to collaborate and there will be a number of mutual check-points organized by EVA-11. Further instructions will be given in the contract negotiations and the kick-off meeting of the evaluation.

The current evaluation will be performed in two phases:

The Desk Study phase

Includes

- A study of the officially supported export credit system of other likeminded countries and OECD’s current view on officially supported export credits.
- Assessment of the Finnish concessional credit concept as a whole; does it comply with the development policy and the quality standards of development aid?
- Assessment of the added value of concessional credits among the Finnish development instruments.
- A comparison of the different financial instruments
 - how do they relate to the Finnish development policy
 - are they mutually reinforcing and complementary to each other.

The desk study **inception report** will be provided in the electronic format. It will specify the working methods on data and information collection as well as have a time schedule and work plan for the desk evaluation. The inception report will describe briefly the evaluation subject and context. In addition, it will validate the evaluation questions against the evaluation criteria in the format of an evaluation matrix which will also include a limited but appropriate number of judgment criteria and the related qualitative and quantitative indicators.

The desk study **draft final report** will contain information that has been gathered and analyzed. It will also identify the complementary information and data which is needed for the analysis. The desk study draft final report will identify the major issues to be examined in the field evaluation phase as well as describe the methodologies to be used in the field study.

The Evaluation Guidelines of the Ministry “Between Past and Future” (2007) should be consulted in the preparation of the reports.

Field Study phase

The Field Study will take place only after EVA-11 has received an acceptable desk study draft final report. An acceptable report is a prerequisite for the implementation of the field phase.

The following reports will be prepared during the Field Study phase should it be implemented:

Inception report of the field study with much of the same specifications as above in the desk study inception report, including the evaluation matrix. Also the countries/regions to be visited will be identified, as well as the time table and overall work plan, including the distribution of tasks between the members of the team.

A Powerpoint supported oral report to EVA-11 on the findings in the field. It should be noted that the field visits will be harmonized between this evaluation team and the team of the Evaluation of Sustainability Dimension in addressing Poverty Reduction.

4. DELIVERABLES

The findings in the field will be combined with the desk study draft final report into a draft final report, and after a round of comments into the final report.

Evaluation reports are read worldwide which is why the language of the reports should be clear and easy also for a layperson to understand. The evaluation process and the quality of the reports must comply with the evaluation quality standards of OECD/DAC and EC. Reports must follow the editorial instructions provided by EVA-11 in the contract negotiations.

5. EVALUATION ISSUES

The evaluation will utilize the five OECD/DAC development evaluation criteria which are relevance, efficiency, effectiveness, sustainability, and impact. The additional criteria of coherence, complementarity and coordination, and the Finnish value-added will also be utilized, as appropriate. Due consideration must be given to the global policy goals (including MDGs, Paris Declaration and the Accra Platform).

The evaluation is expected to answer the following major questions:

1. Did the respective budgetary appropriations adequately reflect the development commitments of the partner countries, and those of Finland, as well as the global development agenda in general, and in particular, the major goal of poverty reduction?
2. Are the interventions responding to the priorities and strategic objectives of the cooperating party, are they additional or complementary to those done by others, or are they completely detached and stand-alone – in other words, what is the particular Finnish value-added in terms of quality or quantity or presence or absence of benefits, and in terms of sustainability of the benefits and in terms of filling a gap in the development endeavour of the partner country?
3. How have the three dimensions of sustainability been addressed in the intervention documents?
4. What are the major discernible changes (positive or negative, intended or unintended, direct or indirect) and are these changes likely to be sustainable?
 - Are there any discernible environmental effects?
 - Are the exported products still functioning?
 - Do the activities of the recipient country correspond to the product?
 - Is there any follow-up carried out by the exporters regarding the products, functions and flow of operations
 - spare parts
 - capacity building and skills development?
5. Have the human resources, as well as the modalities of management and administration of interventions been enabling or hindering the achievement of the set objectives in the form of outputs, outcomes, results, or effects?
 - Is the current Finnish concessional credit system justified, how?
 - Project management: is it justified to have two separate functions (MFA and Finnvera) or should the project management be turned over to Finnvera as a whole?
6. What are the discernible factors, such as local budgetary appropriations, capacity development of local counterpart organizations or personnel, which can be considered necessary for the sustainability of results and continuance of benefits after the closure of an intervention?
7. What has been the role of considering the cross-cutting issues of Finnish development policy in terms of contributing to the sustainability of development results and poverty reduction; has there been any particular value-added in the promotion of environmentally sustainable development?
 - How is the poverty reduction achieved?
 - Are the products helping the poorest, do the poorest have access to them?

8. Are there any concrete identifiable examples of interventions which may be classified to be environmentally, economically and socially sustainable or which have led to poverty reduction or alleviation of consequences of poverty?

9. Have interventions been able to contribute towards sustainable economic results and moreover, raising people from poverty?

10. How is the society touched upon by the interventions taken into account in the strategic and project plans, and what have been the major modalities for the society to influence and affect the interventions and the decision-making on them?

The evaluation team is expected to utilize their own expertise on concessional credits and other credit instruments in development cooperation and add to these questions as they deem necessary.

6. REQUIRED EXPERTISE

Required expertise is specified in Annex A (Instructions to Tenderer).

7. BUDGET

The overall budget for this evaluation is 185,000 euro which sum cannot be exceeded.

8. TIME SCHEDULE

The evaluation will start in the mid-March 2010 and the desk study phase will be completed by the second week of May 2010. Should the optional field phase take place, it will be completed by the end of June 2010. The final report will be completed no later than by the end of July 2010.

9. WORKING MODALITY

The evaluation team shall be provided with the bulk of the evaluation material collected in advance by EVA-11 as hard copy documents, lists of available documents, and documents saved in a flash drive. This arrangement will be put in place due to the limited time available to this evaluation. It is essential that the entire evaluation will be completed no later than July 2010.

The evaluation team is responsible for organizing their work programmes and schedules of interviews. EVA-11 will issue an official internal document, in the beginning of the evaluation, informing all concerned in the Ministry of the starting up of the evaluation and the names of the evaluators. For the field phase EVA-11 will facilitate

the contacts with the embassies and with the relevant local authorities by issuing introductory letters or draft letters to be finalized by the embassies.

The bulk of documentary has been collected in advance by EVA-11 and stored in a flash drive. Yet, additional documentary material may be needed. The documentation available through the internet must be searched by the evaluators themselves. Visits to the archives of the Ministry will be reserved in advance through EVA-11. This means that the requests for archive visits and the specifications of the additional needed documents are submitted to EVA-11 by the evaluation team. Requests on a short notice will not be considered.

The evaluation team shall provide EVA-11 with a list of proposed interviewees before contacting them. EVA-11 will provide the necessary phone numbers and contact information to the evaluators for the team to organize their schedules of meetings. EVA-11 is not responsible for organizing or coordinating meeting schedules of the evaluators.

10. AUTHORIZATION

The evaluation team is entitled to contact and discuss with persons or institutions pertinent to the evaluation. They are, however, not allowed to make any commitments on behalf of the Ministry.

Helsinki, 30.12.2009

Aira Päivöke

Director

ANNEX 2 LIST OF INTERVENTIONS

Project name	Sector	Granted to- tal amount (MEUR)	Total amount of payments (MEUR)	Start date	End date	Duration (yrs)
China						
Gansu-Pingliang Cold Storage project	Health	0.90	0.32	06/02/02	31/12/09	8
Xinjiang Agricultural Project	Agriculture	4.45	1.65	01/09/02	31/12/09	7
Xuejiadao District Heating	Energy	1.83	0.87	01/09/02	31/12/09	7
Baotou District Heating	Energy	2.12	0.85	01/01/03	31/12/09	7
Alashan Hospital Equipment project	Health	0.43	0.21	11/04/03	31/12/17	15
Fuzhou Hospital Equipment project	Health	0.97	0.33	07/05/03	31/12/17	15
Zhangshu Hospital Equipment project	Health	0.74	0.33	07/05/03	31/12/17	15
Xinjiang Tractor project	Agriculture	2.62	1.35	01/08/03	31/12/09	6
Fuliyan District Heating	Energy	1.99	0.70	01/10/03	31/12/09	6
Zhangye District Heating Project	Energy	1.87	1.01	01/10/03	31/12/09	6
Jinhua Children's Hospital Project	Health	2.49	0.83	01/12/03	31/12/09	6
Xianyang Centralized Heating project	Energy	1.54	0.74	01/01/04	31/12/09	6
Yanji Centralized Heating project	Energy	3.70	1.87	01/01/04	31/12/09	6
Guiyang GIS Project	Government and civil society	1.66	0.26	01/06/04	31/12/09	6

Ningguo Hospital Equipment project	Health	1.15	0.46	01/06/04	31/12/09	6
Luochuan Cold Storage project	Agriculture	0.96	0.38	10/09/04	31/12/17	13
Liuzhou Hospital Equipment project	Health	1.29	0.43	01/10/04	31/12/09	5
Shihezi/Kuitun Agricultural Development in Xinjiang	Agriculture	1.64	1.21	01/01/05	31/12/09	5
Heilongjiang Agricultural Project (Tractors)	Agriculture	0.99	0.71	30/05/05	31/12/09	5
Datong Hospital Equipment Project	Health	1.30	0.66	17/06/05	31/12/11	7
Fufeng Cold Storage project	Agriculture	0.78	0.20	19/09/05	31/12/17	12
Yanchua District Heating Project	Energy	1.62	0.41	01/01/06	31/12/09	4
Bole Tractor Delivery Project	Agriculture	2.20	0.17	30/03/06	31/12/09	4
Wuwei District Heating for Chennan District	Energy	2.75	0.49	08/06/06	31/12/15	10
Heilongjiang Agricultural Equipment Project (Tractors)	Agriculture	4.44	0.40	13/09/07	31/12/09	2
Xinjiang/Shihezi Cold Store project	Agriculture	1.54	0.09	20/09/07	31/12/13	6
Pucheng Central Heating Project	Energy	2.65	0.00	04/11/09	31/12/15	6
Costa Rica						
Hospital Equipment Project	Health	12.88	5.92	01/01/03	31/12/09	7
Ghana						
Rural electrification, Ashanti and eastern regions	Energy	8.04	0.00	06/05/09	31/12/25	17
Honduras						
Rural Electrification project	Energy	5.16	0.22	25/09/03	31/12/10	7

Namibia						
Hospital Project	Health	8.57	1.05	01/02/07	31/12/15	9
Philippines						
Rehabilitation of waterways	Water and sanitation	3.92	0.21	01/01/07	31/12/09	3
Sri Lanka						
Hospital Equipment project	Health	11.38	5.51	01/03/04	31/12/09	6
Solar Energy for Devel. of Rural Educ. and Health Infra	Energy	16.76	4.45	23/11/05	31/12/09	4
Vietnam						
Haiphong Storm Water project	Water and sanitation	1.17	0.33	01/12/04	31/12/09	5
Solar Energy project	Energy	4.22	0.00	17/01/05	31/12/09	5
Upgrading of Electricity Supply Network (MiniScada)	Energy	9.35	0.58	14/08/06	31/12/17	11
Thanh Hoa Hospital Equipment Project	Health	2.67	0.36	08/09/06	31/12/14	8
Cao Bang Hospital Equipment Project	Health	1.04	0.00	10/07/08	31/12/13	5
Viet Tiep Hospital Project	Health	3.98	0.00	08/06/09	31/12/16	8
Firefighting and Rescue Facilities Project	Other social infrastructure and services	5.90	0.00	24/09/09	31/12/15	6
Hung Yen City Water Supply Development Project	Water and sanitation	4.51	0.00	02/10/09	31/12/15	6

Unspecified						
UNSPECIFIED/Preparation trips	Unallocated/ unspecified	0.13	0.07	01/01/04	31/12/09	6
UNSPECIFIED/ Development cooperation information	Unallocated/ unspecified	1.63	1.63	01/01/05	01/01/05	0
VIENTNAM/Support for CC projects	Unallocated/ unspecified	0.98	0.21	08/08/06	31/12/09	3
UNSPECIFIED/ Framework contract/ Finnish EvLuth. Mission	Unallocated/ unspecified	3.03	3.03	01/01/07	01/01/07	0
UNSPECIFIED/ Monitoring and supervision of use of CC	Unallocated/ unspecified	0.02	0.00	24/06/09	31/12/09	1

Source: Compiled by the evaluation team based on data from MFA list of projects

Note: Start date is estimated based on date of first document (typically the appraisal report). End date corresponds to estimated project completion.

ANNEX 3 EVALUATION MATRIX

Evaluation Criteria	Evaluation Questions and Judgement Criteria <i>(when appropriate judgement criteria are presented after the evaluation question in parentheses)</i>	Proposed Indicators	Means of Verification	Sources for Verification
1-Relevance	<p>1.1 How does the CC reflect Finland's goals of poverty reduction?</p> <p>1.2 How have the three dimensions of sustainability (economic, social, environmental) been addressed in the intervention documents? EQ3</p> <p>1.3 Are the interventions responding to the objectives of the cooperating party? EQ2 (= relevance to the recipient government)</p> <p>1.4 Did the respective budgetary appropriations adequately reflect the development goals of partner countries and Finland? EQ1 (= were the individual interventions' budgets adequate/sufficient? Also at program level?)</p> <p>1.5 How is the society touched upon by the interventions taken into account in the strategic and project plans, and what have been the major modalities for the society to influence and affect the interventions and the decision-making on them? EQ10 (= role of community in project design?)</p> <p>1.6 How does CC contribute to economic growth through Finnish imports, while not distorting local markets and</p>	<p>Evidence of consideration/benchmarking of poverty reduction and sustainability in CC policy/project documents</p> <p>Degree of discussion of sustainability in project documentations</p> <p>Degree of participation of govt in project preparation and approval</p> <p>Evidence of how financial resources are reflected into development outcomes</p> <p>Degree of community involvement in project documentations preparation</p> <p>Finnvera, exporters, banks views on export promotion effects of CC.</p>	<p>Review and analysis of key documents</p> <p>Review and analysis of key documents relating to projects</p> <p>Review and analysis of key documents relating to projects</p> <p>Review and analysis of key documents relating to projects</p> <p>Review and analysis of key documents relating to projects</p> <p>Review and analysis of key documents relating to projects</p> <p>Interviews with relevant stakeholders</p>	<p>CC policy documents, CC programme documents</p> <p>Feasibility study, Appraisal</p> <p>Project documentations</p> <p>Project documentations</p> <p>Feasibility study, Appraisals</p> <p>Interviews with Finnvera, export-</p>

	competitiveness? (= are projects commercially non-viable?)	Discussion in project documentations	Review and analysis of key documents relating to projects	ers, banks Project documentations
2-Effectiveness	2.1 Do the projects meet planned/specified objectives?	Degree of compliance of projects' outcomes/results to planned outcomes	Review of monitoring reports Analysis against baseline data	Monitoring reports, Post-implementation reviews
	2.2 Are the exported technologies being maintained? Are exporters providing maintenance and capacity building? Are the technologies used in the way intended? EQ4 (= Has the CC been effective in achieving its immediate results, effectiveness? a) Does the Finnish product in the project delivers the project objective well?; b) Has the Finnish product worked and is still being maintained; c) Do exporters provide spare parts and capacity building for maintenance?)	Evidence of technology use after project completion; Size of the budget for TA and capacity building in projects	Review of monitoring reports, budgets Analysis of results against baseline data Interviews	Monitoring reports, Interviews with exporters Project budgets
3-Impact and Sustainability	3.1 Have interventions been able to contribute sustainable economic results and to raising people from poverty? EQ9	Analysis of intervention logic Evidence of attributable socioeconomic changes	Analysis of results against baseline data	Project documentation, Feasibility study Baseline and monitoring data from project documentation
	3.2 What are the major discernible changes (positive or negative, intended or unintended, direct or indirect)? What are the environmental effects? EQ4	Evidence of attributable impacts Evidence of environmental considerations (ELA) in Feasibility study Evidence of environmental effects	Analysis of impacts against baseline data Review of project documentation	Baseline and monitoring data from project documentation Feasibility study Baseline and monitoring data from project documentation

	<p>3.3 Are there any concrete identifiable examples of interventions, which have led to poverty reduction or alleviation of consequences of poverty? EQ8 (= examples of interventions that achieved the three dimensions of sustainability?)</p>	<p>Evidence of attributable poverty reduction</p>	<p>Analysis of impacts against baseline data Review of project documentation</p>	<p>Feasibility study, Appraisal, Monitoring reports, Post-implementation reviews</p>
	<p>3.4 Are the products helping the poorest, do the poorest have access to them? EQ7 (= are the interventions benefiting the poorest?)</p>	<p>Share of poor people among project beneficiaries, affordability</p>	<p>Degree of attention and targeting of results to the poor Review of project documentation</p>	<p>Feasibility study, Monitoring reports</p>
	<p>3.5 How is the society touched upon by the interventions taken into account in the strategic and project plans, and what have been the major modalities for the society to influence and affect the interventions and the decision-making on them? EQ10 (= role of community in project implementation and to facilitate sustainability?)</p>	<p>Degree of community participation in project preparation</p>	<p>Review of project documentation</p>	<p>Appraisal, Feasibility study</p>
	<p>3.6 Are the impacts likely to be (economically, socially, environmentally) sustainable? EQ4</p>	<p>Degree of inclusion of sustainability factors in project design Budget for TA, maintenance</p>	<p>Analysis of financial inputs Review of project documentation</p>	<p>Appraisal, Feasibility study Budget, Monitoring data</p>
	<p>3.7 Have interventions been able to contribute towards sustainable economic results? EQ9</p>	<p>Evidence of economic viability of project outcomes</p>	<p>Economic analysis Review of project documentation</p>	<p>Feasibility study, Post-implementation reviews</p>
	<p>3.8 Is this a concrete example of interventions, which may be classified to be environmentally, economically and socially sustainable? EQ8 (=examples of interventions that reduced poverty)</p>	<p>Degree of coverage of social, economic and environmental sustainability factors in projects Evidence of sustained project impacts</p>	<p>Analysis of intervention logic Review and analysis of project documentation Analysis of impacts against baseline data</p>	<p>Feasibility study, Appraisal, Monitoring reports, Post-implementation reviews</p>

				Monitoring data, Post-implementation reviews
3.9 What are the discernible factors, such as local budgetary appropriations, capacity development of local counterpart organizations or personnel, which can be considered necessary for the sustainability of results after the closure? EQ6	Evidence of sustainability through partner organization financial allocations to the project implementation Evidence of partner organization capacity/personnel development in relation to the project sustainability	Review of partner country financial contributions and funding of recurrent costs Scale of institutional changes in relation to the project Interviews	Project documentation Interviews with organisation representatives	
3.10 What has been the role of considering the cross-cutting issues of Finnish development policy in terms of contributing to the sustainability of development results and poverty reduction? EQ7 (=how has inclusion of gender, HR, equality etc. contributed to project sustainability and poverty reduction?)	Evidence of inclusion of cross-cutting issues in project design Evidence of project impact through cross-cutting issues in partner country	Degree of attention to cross-cutting issues in project design, budget; Analysis of cross-cutting issues in baseline data and monitoring	Feasibility study, Appraisal, Post-implementation reviews	
3.11 Has there been any particular value-added in the promotion of environmentally sustainable development? EQ7 (= How the inclusion of environmental sustainability has contributed to project sustainability and poverty reduction?)	Evidence of inclusion of environmental considerations in project design Evidence of impact of inclusion of environmental sustainability	Review of environmental analysis in project documentation	Feasibility study, Appraisal, Post-implementation reviews	
4-Efficiency	4.1 Are impacts produced in a cost-effective way?	Evidence of value for money of interventions, discussion of alternatives	Value for money analysis	Feasibility study, Bidding reviews
	4.2 Have the human resources, as well as the modalities of management and administration of interventions been enabling or hindering the achievement of the set objectives in the form of outputs, outcomes, results, or effects? EQ5	Division of work, resource allocation within MFA, efficiency of the work flow and extensive use of consultants	Review of administrative and management processes Interviews	Interviews with Finnvera, consultants exporters representatives

	4.3. Is project management by Finnvera and MFA [including sub-contracted consultants?] efficient? EQ5	Budget allocation for programme administration and management Time allocation for project processes	Review of budgets for administration Interviews	MFA financial data Interviews with Finnvera, consultants exporters
	4.4 What is the role of monitoring and evaluation tools in projects? How do the projects ensure that learning is embedded in project management?	Proportion of projects with monitoring reporting Proportion of projects with post-implementation reviews Proportion of projects undergoing independent evaluation Evidence of monitoring and evaluation follow-up activities	Analysis of the quality of M&E systems in place	Monitoring reports Post-implementation reviews Evaluation reports
5-Complementarity and Coherence	5.1 Are the interventions additional or complementary to those of other donors? EQ2	Evidence of complementarity with other donors' activities in field	Review of project/programme related documentation	Reports of other donor interventions
	5.2 Are Finnish development and commercial policies working towards same objectives on CC? How does CC scheme compare to Finnvera and Finnfund financing instruments? How the CC scheme would have been carried out by done by a different Finnish ODA modality?	Degree of coherence between policies	Comparative policy analysis	Development policy, Commercial, industrial, trade policies. Evaluation reports
6-Coordination	6.1 Are program and projects coordinated with other donors/other ODA instruments? Other CC? (both in implementation and in design)	Evidence of coordination activities with other donors in project design and implementation	Review of documentation Interviews	Donor coordination meetings reports/agreements; Feasibility study

7-Finnish Value Added	7.1 How does the Scheme compare to other CC by other countries?	Evidence of success in achievement of objectives and sustainability in other donors' CC schemes	Analysis of donor and international organizations documents Interviews	Evaluation reports of CC schemes of other donors, OECD peer reviews of other donors
	7.2 What is the particular Finnish VA in terms of quality or quantity or presence or absence of benefits, and in terms of sustainability of the benefits and in terms of filling the gap in the partner country needs? EQ2 (= in what ways using the Finnish exports is more beneficial than others? Finnish technology better than any other)	Evidence of unique Finnish expertise or technology provided through the Scheme	Analysis of extent and relevance of Finnish expertise in projects	Feasibility study, Appraisal

ANNEX 4 FIELD MISSION TO VIETNAM: INCEPTION REPORT

Selection of country for visit: Most countries have received only 1 concessional credit (Costa Rica, Ghana, Honduras, Namibia and Philippines), so the partner country experience with these credits is necessarily limited. Only China, Vietnam and Sri-Lanka have received more than one credit.

China has received a large number of projects (27) and the largest amount of total grants commitments (32.5% of the total). However, these projects are not representative as Chinese projects are of an average of 1.9 MEUR, as opposed to the non-Chinese project average of 6.6 MEUR of granted interest subsidy. Logistically also a field visit in China would have been quite complex.

Therefore, only Vietnam and Sri-Lanka would be adequate candidates for field study work. Vietnam has the advantage of having a larger number of credits (as opposed to only 2 in Sri-Lanka) and also the fact that it has been the only pilot for decentralised management of the concessional credit scheme. The mission to Vietnam would therefore be able to discuss issues with the person at the Embassy responsible for the concessional credit scheme in the country. We will also be able to study and compare the actions of other donors of concessional credits in Vietnam while coordinating with other evaluation teams who will be visiting the country exactly at the same time. Finally, as the 2003 evaluation covered also projects in Vietnam, we will be able to rely on this background information and bring-out how the concessional credit scheme schemes in the country have evolved over time.

Resources: The evaluation team leader Carlos Montes will visit Vietnam at the same time as the Energy and Forestry parallel evaluations. The concessional credit instrument evaluation will have the support of two local consultants, including Mekong Economics. The evaluations will carry a number of joint meetings and will work as one team. We have coordinated extensively, the approach of this evaluation. We will also coordinate closely with the concessionary credit liaison person in the Finnish Embassy. Carlos Montes is familiar with the country and many important stakeholders, having visited Vietnam recently and has interviewed a number of the relevant government officials and donors previously.

Focus and Methods of the field visit:

The field visit will help validate key initial findings of the desk study, allow us to gain insight into implementation experience, and validate some evaluation recommendations.

The field study will follow the same analytical approach introduced in the desk study, i.e we will follow the general evaluation matrix and will apply our semi-structured interviews to all the relevant stakeholders and project documentations. The design of the visit to the field will not allow for an inspection of the projects in Vietnam, which

given the absence of systematic monitoring and evaluation would have required an extensive financial and outcome audit.

In particular, we will be looking to the degree to which the concessional credits are aligned to the objectives of the Vietnamese government and what is govt. perception of the relevance, effectiveness and efficiency of concessional credit projects. Suggestions from government officials on how these processes can be enhanced will be discussed. We will enquire with government officials and other stakeholders whether the concessional credit projects sufficiently reflect the value added of Finnish technology, i.e. the degree to which the concessional credit scheme allows Finland to showcase world-class Finnish technology. We will be looking particularly to the technology in relation to environmental issues, climate change and alternative energy, i.e. areas of potential value added for Finland.

Looking to the future, we will seek recommendations on how to enhance the relevance of the projects, the quality of the feasibility studies while at the same time trying to speed up the design and preparation phase. This is particularly relevant as the Development Finance Institutions unit of the MFA is preparing guidelines requiring a more comprehensive and detailed feasibility study for concessional credit projects. However, the visit is planned to cover rigorously the issues identified below.

We will discuss with other donors to explore ways in which **coordination** on concessional credit projects can be enhanced in an efficient manner, in order to support the complementarity of intervention. Discussions could also indicate the degree to which concessional credit project are complementary to efforts by other donor (as we know from reviews that this is particularly relevant in relation to the impact of projects in the health sector). Other potential areas where coordination can lead to better Complementarity include funding mechanisms for broader TA needs (e.g., capacity building and human development in hospitals) and for the abatement of social and environmental costs associated with concessional credit projects (e.g., resettlement and disposal of medical waste), monitoring and monitoring and evaluation, and poverty targeting.

We will also seek views of stakeholders on how one could build a practical but effective **monitoring and evaluation system** so as to improve the management and impact of concessional credit projects. Again, this is a strong priority of the Development Finance Institutions department of the MFA. The proposed monitoring and evaluation system could build on the recent monitoring visits carried out by the locally recruited consultant in Vietnam. The projects need to provide an initial set of indicators and benchmarks in order to make possible any type of evaluation.

We will visit the hospital and water projects in the Haiphong area and will also consult on the project in relation with Firefighting equipment. We will discuss with stakeholders primarily issues in relation to project preparation and design and the way in which the intervention logic successfully focuses on the poor and even more on the poorest of the poor (and vulnerable groups). The absence of project documentation in relation to post-appraisal, means that this evaluation will consider issues in Vietnam at a systemic rather than

project level. Issues of maintenance and capacity building on these projects will be explored. We will also put a strong focus on issues of economic, social and environmental sustainability in the 3 projects that we will visit, as well as the consideration of the cross-cutting issues.

On these 3 projects, we will assess the degree to which Finnish VA has been maintained, i.e. the degree to which world-class Finnish technology has been deployed in Vietnam through these projects. Finally, we will see from the perspective of the partner government how efficient in terms of money and time the concessional credit scheme processes have been. We will also discuss how much coordination and complementarity they have carried out/achieved. For the other 5 projects we will be covering information available from Hanoi and through sector discussions with key donors in the area as well as central government.

The field visit in Vietnam will explore practical ideas with Finnish and Vietnamese stakeholders on how to enhance the concessional credit's project cycle, taking into account both the experience in dealing with other ODA projects as well as the experiences with decentralisation in the management of the concessional credit scheme.

To identify the issues with more clarity we have produced a matrix for Vietnam – See Table A 4.1 below. This matrix follows the same structure as that produced by the Forestry evaluation for its field missions. This matrix and overall approach was discussed and agreed with counterparts at the Ministry for Foreign Affairs prior to the filed visit.

FIELD STUDY MATRIX

<p>Vietnam: June 2010</p>	<p>General Issues related to Concessional Credit scheme</p>	<p>Issues to be addressed</p> <p><u>Relevance</u></p> <ul style="list-style-type: none"> - relevance of concessional credits scheme to central and local authorities - <u>Impact and Sustainability</u> - evidence of attributable poverty reduction - assessment of community involvement in concessional credits projects design and implementation - assessment of sustainability factors - recurrent cost and maintenance issues - training of human resources <p><u>Effectiveness</u></p> <ul style="list-style-type: none"> - how well the equipment operate a few years later - availability of spare parts <p><u>Efficiency</u></p> <ul style="list-style-type: none"> - assessment of concessional credits process efficiency in Vietnam, lessons learned from pilot decentralization, progress since 2003 evaluation. - assessment of the role of monitoring in the concessional credits process. Role of new practices <p><u>Complementarity, Coherence, Coordination</u></p> <ul style="list-style-type: none"> - lessons learned from other donors - evidence of donor coordination - assessment of the complementarity of concessional credits projects within sectors - Harmonization of environmental and social policies and funding of related alleviation costs - Poverty targeting and joint monitoring and evaluation <p><u>Finnish value added</u></p> <ul style="list-style-type: none"> - views and evidence of Finnish VA
	<p>Institutions to meet</p> <p>Embassy of Finland – Head of Development Cooperation, concessional credits officer</p> <p>Ministry of Planning and Investment – Director of Foreign Economic Relations</p> <p>Research Center for Energy and Environment – Project Manager</p> <p>World Bank – Water and Sanitation, health and safeguards specialists</p> <p>Asian Development Bank – Water, Climate change, Environment</p> <p>Ministry of Industry and trade – Deputy director general, Electrification and renewable energy</p> <p>Ministry of Natural Resource and Environment – Energy, Alternative energy, Climate change</p> <p>Ministry of Finance – International finance director</p> <p>Electricite de Vietnam (EVN) – Vice director</p> <p>Embassy of Netherlands – First Secretary (Climate Change, Environment, Sustainable Development)</p> <p>HSDC – Deputy director</p> <p>People’s Committee of HaiPhong city</p> <p>Viep Tiep General Hospital</p> <p>Committee for Ethnic Minorities</p> <p>Finpro – senior consultant</p> <p>Ministry of Public Security’s (MPS) Department for Fire Prevention</p> <p>Ministry of Health – Director of International Cooperation Department</p> <p>German Embassy – Health sector officer</p>	

Projects	<p>HaiPhong Storm Water Project</p> <ul style="list-style-type: none"> - evidence of economic, social and environmental benefits and any unforeseen issues - assessment of sustainability factors - evidence of monitoring of outcomes and impacts - evidence of attributable poverty reduction assessment of Finnish VA 	
	<p>Viet Tiep Hospital</p> <ul style="list-style-type: none"> - evidence of economic, social and environmental benefits, including waste management - evidence that equipment are used effectively and related issues - assessment of sustainability factors - evidence of monitoring of outcomes and impacts - evidence of attributable poverty reduction and access by the poor - assessment of Finnish VA 	
	<p>Fire fighting and Rescue Facilities Project</p> <ul style="list-style-type: none"> - evidence of economic, social and environmental benefits - information on deployment of investments - assessment of sustainability factors - evidence of monitoring of outcomes and impacts - evidence of attributable poverty reduction - assessment of Finnish VA 	

ANNEX 5 CONCESSIONAL CREDIT IN VIETNAM – AS OF JUNE 2010

(1) Preparation of FS -> (2) Appraisal -> (3) Approval -> (4) Tendering process -> (5) commercial contract -> (6) Approval -> (7) Implementation			
Project name	Description of the project	Value (approx.)	Current status
Water supply projects			
1 Hung Yen Water supply project	To construct a 10,000 CMD water supply system consisting of water intake structures and pipeline, pumping station, conventional chemical water treatment plant and distribution network.	€ 5.8 million	(6) Implementation
2 Water supply in Tam Hiep Quang Nam	Construction of water treatment plant, installation of transmission pipelines and distribution network for Nui Thanh urban area and resident surrounding with objective to increase capacity of water supply system up to 20,000 CMD to year 2010 accordance with development master plan for ChuLai open economic zone until 2010 - 2020	€ 4.7 million	(2) Appraisal
3 Water supply system outside Vinh city	Construction of a new water treatment and supply system to meet the demands of clean water in domestic and production purposes in Vinh city neighbourhood (Vinh city, NgLoc district, Nam Dan district, Hung Nguyen district). The estimate capacity is 21,200 CMD.	€ 10.2 million	(6) Approval process
4 Expanding the water supply system of Dong Xoai Town - Binh Phuc province	The objective of the project is to construct a water a water supply system capable of serving clean water for the population 80 000 people according to the standard 120 l/capita /day. The project comprises a water intake and water transmission line from the Dong Xoai Lake, water distribution system with the total length of 71 000 m of water pipes, and water supply plant with the capacity of 20 000 m ³ /day, replacing the existing plant.	€ 5.5 million	(2) Appraisal

(1) Preparation of FS -> (2) Appraisal -> (3) Approval -> (4) Tendering process -> (5) commercial contract -> (6) Approval -> (7) Implementation			
Project name	Description of the project	Value (approx.)	Current status
Health care projects			
1 Viet Tiep hospital equipment project	The project upgrading HaiPhong Viet Tiep polyclinic hospital in the following sections: Testing centres, image diagnostic and psychology diagnostic centre, 9 surgical rooms, intensive care, Para clinical dept, sterilisation center.	€ 6.8 million	(6) Implementation
2 Hanam hospital equipment project	The project upgrading Ha Nam General hospital in the following sections: laboratory services, diagnostic imaging, functional examination services, operating theatres, emergency, intensive care, recovery services, clinical equipment and central sterile supply	\$3.5 million	(2) Appraisal
3 Equipment and facilities Investment of Vietnam-Cuba Friendship hospital DongHoi - QuangBinh	The project supplementing and replacing equipment of multi faculties hospital with the capacity 500 bed included the faculties - internal, external, obstetric, paediatrics, ophthalmology, otorhinolaryngology, traditional health care.	€ 3.8 million	(2) Appraisal
Environmental projects			
1 Construction of a solid waste treatment plan in the South of BinhDuong	The project is to improve the present waste management by establishing new solid waste handling plant that can process the collected waste, direct the recovered materials to re-use or dispose the remaining waste in a landfill.	€6.6 million	(5) Commercial contract

(1) Preparation of FS -> (2) Appraisal -> (3) Approval -> (4) Tendering process -> (5) commercial contract -> (6) Approval -> (7) Implementation				
	Project name	Description of the project	Value (approx.)	Current status
2	Water supply and sanitation in Backkan town	Construction of Drainage and Sewerage system with capacity of waste water treatment plant is 4,500CMD in phase I (2010) and the capacity will be increased to 9,000CMD in phase II (2020). Construction of the distribution network to put the existing water treatment plant into operation with full capacity.	\$ 8 million	(4) Tendering process
3	Construction of Drainage and Sanitation Project - Dien Bien Phu city	Building the drainage, collecting and treating waste water system of Dien Bien Phu city. The investment includes building of culverts for rain-water and life waste water; building 5 pumping stations for transiting the waste water; building one waste water treatment station.	€ 10 million	(4) Tendering process
Transportation projects				
1	Technology transfer to improve capacity and quality for bridge inspection and repairs	The Bridge Inspection and Repair Project in Vietnam aim at strengthening the administration of the Vietnam Road Administration (VRA) regarding bridge management. Training will be provided to bridge inspectors to upgrade their knowledge and skill and manuals on inspection and repair work will be produced. Modern bridge inspection and repair equipment will also be provided. Finally, two pilot bridges will be repaired while training is carried out.	\$ 2.5 million	(4) Tendering process

(1) Preparation of FS -> (2) Appraisal -> (3) Approval -> (4) Tendering process -> (5) commercial contract -> (6) Approval -> (7) Implementation				
	Project name	Description of the project	Value (approx.)	Current status
2	HaiPhong Rao Bridge (phase 1 - design and supervision)	The project consists of a cable stay bridge across Latch Tray River, south of HaiPhong City.	€ 1.6 million	(6) Implementation (supervision work)
3	HaiPhong Rao Bridge (phase 2 - construction)	The project consists of a cable stay bridge across Latch Tray River, south of HaiPhong City	€ 21 million	(5) Implementation
Energy projects				
1	Electrical supply network upgrading (Miniscada)	The main objective of the Project is, by installing 5 MiniSCADA electricity network and control system in DaNang, NhaTrang, Hue, QuiNhon and Buon Ma Thuot cities in Central Vietnam, to achieve a better electricity supply as well as via improved quality of voltage and frequency and will benefit a large number of people also in the countryside.	\$ 11 million	(6) Implementation
2	Application of solar energy to mountainous and ethnic minority areas in Vietnam	The objective of the Project involves the provision of solar energy supply to 70 communes, 36 communes in the Central Highlands and Central part of Vietnam, and 34 communes in the mountainous areas of North Vietnam.	\$5.3 million	(5) Implementation

(1) Preparation of FS -> (2) Appraisal -> (3) Approval -> (4) Tendering process -> (5) commercial contract -> (6) Approval -> (7) Implementation				
	Project name	Description of the project	Value (approx.)	Current status
3	Rural power network rehabilitation project for Ha Tay, Hung Yen, Phu Tho and Thai Nguyen provinces	The objective of the project is to extend and rehabilitate the rural MV power network in Northern Vietnam in order to assure the demand of electricity during the period of 2005-2015.	€ 6.3 million	(4) Tendering process
Others				
1	Firefighting and Rescue Facilities project	The project focus on investment in fire trucks equipment, lifting truck, rescue trucks and emergency equipment, modernizing fighting means and meeting requirements, duties of firefighters during socio-economic development process of the nation	€ 8 million	(6) Implementation

Source: Embassy of Finland in Hanoi

ANNEX 6 DESCRIPTION OF FINNFUND AND FINPARTNERSHIP AND RELATED PROCEDURES (FROM THE SCHEMES' WEB SITES)

Finnfund

Scope - Finnfund provides investment financing in the form of minority equity investments, investment loans, mezzanine financing and a combination of these. The projects should have an experienced industrial sponsor, strongly committed to the project. If the sponsor is not a Finnish parent company, some other link to Finnish interests must be demonstrated. The project itself must operate in a developing country or in Russia. Finnfund's financing often enjoys exemption of withholding and capital gains taxation due to bilateral tax treaties. Finnfund's financing is not tied to exports from Finland.

Equity financing - Equity investments are typically made directly (or through a holding company) into the project company. Finnfund's equity participation is limited to minority shareholding and does not usually exceed the shareholding of the sponsor. The investment and exit terms are agreed in advance with the sponsor.

Investment loans - Finnfund's investment loans are also provided directly to the project company. The loans will be adjusted to the cash flow forecast of the project. Maturity can be anything from medium to long-term and usually it varies from 8 to 12 years including a grace period. The repayment schedule is tailored to suit the project. Loans are provided in main convertible currencies, usually in euros or dollars. Collateral is also determined according to the project. The interest rate is a combination of a base rate and margin. The margin depends on the risks Finnfund faces in the project.

Mezzanine financing - To best suit the capital needs of the project Finnfund can also arrange financing with mezzanine instruments. These include unsecured subordinated loans, preferred shares and convertible bonds.

Guarantees - In exceptional cases Finnfund can grant guarantees, for example to facilitate client's access to financing in local currency

Co-financing - When the financing needs of the project exceed Finnfund's capacity to take risk, we may be able to finance it together with other finance institutions. Finnfund is a member of EDFI (European Development Finance Institutions) and collaborates closely with its members. Finnfund also has a long-standing cooperation with IFC (International Finance Corporation), the EBRD (European Bank for Reconstruction and Development) and other development banks as well as commercial banks. Finnfund is also an investor in a number of private equity funds active in developing countries.

Finnpartnership

Eligible applicants - Eligible applicants for the Business Partnership Support are: (a) companies registered in Finland or elsewhere that have substantial links to Finland; (b) research facilities, universities or similar organizations based in Finland; and (c) associations registered in Finland.

The applicant must be the responsible actor for implementing the project. The applicant should have an adequate commercial track record corresponding to the operations and sector of the project in question. In addition, the applicant should have sufficient financial and human resources to implement the project.

De minimis aid - Companies (and the groups they are part of) can receive a maximum of €200,000 of de minimis aid over a 3-year period (over the current and the two previous fiscal years). The exceptions to this rule include the following sectors, for which different limits exist: fisheries and aquaculture (de minimis limit of 30,000 euros) and primary production of agricultural products (de minimis limit of 7,500 euros). In the transport sector, the de minimis limit is 100,000 euros. In addition, restrictions concerning de minimis aid mean that no support can be granted for the coal industry, export aid and the favouring of domestic over imported products. De minimis aid can also not be granted for supporting companies experiencing financial difficulty.

Target countries - Eligible project target countries are all of the developing countries listed as ODA recipients by the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD). An exception is those countries, against which the European Union or the United Nations have imposed sanctions.

Projects qualifying for the support facility - The Business Partnership Support is intended for commercially viable activities aimed at long term economic cooperation in developing countries, such as: (a) establishing a joint venture or a subsidiary company in a developing country; (b) value-added importing from a developing country to Finland or to the EU; (c) pilot projects related to Finnish environmental technology; and (d) other long-term business activity, such as long-term subcontracting-, maintenance-, franchise- or licensing contract.

The Business Partnership Support does not cover expenses associated with exporting. Certain phases of export projects can be supported when they involve long-term commercial cooperation with a company or an organization in developing countries, and transfer of technology/know-how, for example in the case of long-term operation and maintenance contracts between Finnish and developing country actors. In such a case, e.g. identifying a developing country partner and training of developing country employees can be supported. Support is available for an activity with realistic potential to develop into a commercially viable project and which: (a) fosters development in the target country; (b) is in line with legislation and requirements of the target country; and (c) complies with international environmental and social standards.

The support facility covers approved expenses incurred in the following preparatory and implementation phases of a project: (a) identifying business partners; (b) pre-

feasibility study; (c) feasibility study; (d) social and environmental impact assessment; (e) business plan; (f) training of the employees in the target developing country; (g) utilizing experts in developing a specific business area of a project; and (h) planning, employee training and technical assistance in pilot projects related to Finnish environmental technology

Approved expenses - Expenses incurred after Finnpartnership has registered the properly submitted application form may be covered by the facility. Approved expenses, which have been incurred during the above mentioned preparatory and implementation phases of a project, are for example: (a) costs incurred when evaluating a potential business partner (e.g. legal fees); (b) research and development costs and test fees when preparing goods to meet the requirements for import to Finland or to the EU, as well as costs arising from tests required by officials; (c) experts' fees (junior consultant max. € 520 per day, senior consultant max. € 910 per day); (d) applicant's internal labour expenses arising from short term work in the project country (max. € 500 per day, based on the person's regular monthly salary, as detailed in the employment contract); (e) travel costs to the target country by the applicant's personnel and external experts during the set-up phase of the project; (f) personnel training costs of the company in a developing country; (g) short-term external consultant fees for developing the business operations of the company in the developing country; and (h) planning and training costs as well as technical assistance costs in pilot projects related to Finnish environmental technology.

Amount of the Business Partnership Support Facility - The Business Partnership Support covers 30-70 % of the budgeted approved and incurred expenses depending on the size of the applicant company and the DAC classification of the project target country. The target countries are classed into low income developing countries and other developing countries. Companies (and the groups they are part of) can receive a maximum of €200,000 of de minimis aid over a 3-year period. This ceiling takes into account all public assistance given as de minimis funding over the previous 3 years and which can take various forms (grants, loans, subsidised contracts, etc). The applicant company must declare all the funding it has received from ministries, authorities that operate under ministries, regional Centres for Economic Development, Transport and the Environment (ELY Centres), Tekes, Finnvera, municipalities or Finnish Regional Councils. The applicant is responsible for ensuring that the total of de minimis aid received does not exceed the maximum limits mentioned above. Due to the public nature of de minimis aid, the applicant name, sector, and the amount of financial support will be public.

The support will be paid after the approved project expenses have incurred. Expenses incurred after the registration on the application can be covered by the support.

Applicant / Coverage amount	Low income developing countries	Other developing countries
SME's and other small organizations	70%	50%
Large companies	50%	30%

The SME definition of a company is based on the European Commission recommendation of 2003.

Enterprise category	Number of employees (headcount)	Annual turnover, or	Annual balance sheet
SME	< 250 Annual Work Unit	Max. € 50 million	Max € 43 million

In addition to the above terms, the company must fulfil the criteria of an autonomous enterprise.

Application process - Applications for the Business Partnership Support Facility are submitted by filling in a specific application form. Duly signed and filled applications along with required attachments should be submitted to Finnpartnership after which they will be registered on the date of receipt and assigned with a project number. The Business Partnership Support facility may cover expenses incurred after the registration of the application.

Payment of support facility - Support will be paid after the approved project expenses have incurred. For those applicants whose application has been registered on the 1.1.2010 or after this date, the support is valid for 24 months from the date that the applicant has been informed of the approval by the Ministry for Foreign Affairs of Finland. Before the support expires, the receiving entity must submit a payment request which is to be filed together with a specification of detailed incurred expenses, an auditor's statement and check list.

The Business Partnership Support can be settled in two instalments and a final report must be submitted in connection with the reimbursement request. If reimbursement is applied for in 2 separate instalments, the final report must be submitted along with the first reimbursement request if it covers over two thirds of the total support granted. In addition, follow-on reports detailing the progress of the project must be submitted for the two years following

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