EVALUATION

of Economic Development, Job Creation and Livelihoods

Volume 3 • Study on Private Sector Instruments

Ministry for Foreign Affairs of Finland

Evaluation on Finland's Development Policy and Cooperation

2021/1D

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EVALUATION OF ECONOMIC DEVELOPMENT, JOB CREATION AND LIVELIHOODS

Final Report

Volume 3 – Study on Private Sector Instruments

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EVALUATION
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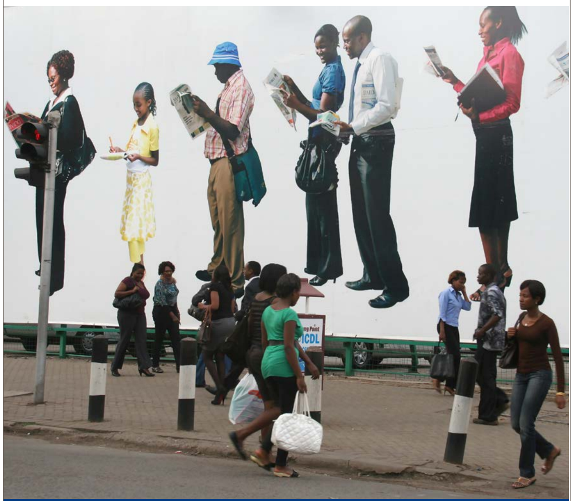
Volume 1.1 • Main Report

Ministry for Foreign Affairs of Finland



Evaluation on Finland's Development Policy and Cooperation

2021/1A

EVALUATION
of Economic Development,
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Volume 1.2 • Annexes

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THIS REPORT

Evaluation on Finland's Development Po

2021/1D

Evaluation of Economic Development, Job Creation and Livelihoods

This evaluation report consists of four volumes:

VOLUME 1.1 – MAIN REPORT	
1)	Introduction
2)	Approach, methodology and limitations
3)	Context
4)	Findings
5)	Conclusions
6)	Recommendations

VOLUME 1.2 – ANNEXES (incl. best practice and thematic studies)	
1)	Terms of Reference
2)	People interviewed
3)	Documents consulted
4)	Definitions of key terms
5)	Detailed methodology
6)	Evaluation matrix
7)	Best practices and peer review
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VOLUME 2 – COUNTRY CASE STUDIES	
1)	Country case study Kenya
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Acronyms and Abbreviations

AIF	Alternative Investment Fund
AIMM	Anticipated Impact Measurement and Monitoring System
BEAM	Business with Impact
BF	Business Finland
BOMF	BlueOrchard Microfinance Fund
BPS	Business Partnership Support
CRS	Common Reporting Standard
CSO	Civil Society Organisation
DEAT	Development effects assessment tool
DFI	Development Finance Institution
DOTS	Development Outcome Tracking System
EBRD	European Bank of Reconstruction and Development
EDFI	European development finance institutions
EEP	Energy and Environment Partnership
EQ	Evaluation Question
ESG	Environmental, Social and Governance
ESGMS	ESG Management System
EU	European Union
FCA	Finn Church Aid
FCAI	Finn Church Aid Investment
FIBFC	Finland – IFC Blended Finance for Climate Change
GWh	Gigawatt hours
HIPSO	Harmonised Indicators for Private Sector Operations
HRBA	Human Rights Based Approach
IFC	International Finance Corporation
IFC PS	IFC Performance Standards on Environmental and Social Sustainability
ILO	International Labour Organisation
IMF	International Monetary Fund
KPI	Key Performance Indicator

LDC	Least Developed Country
LIC	Low Income Country
LMIC	Low and Middle-Income Countries
LP	Limited Partner
MFA	Finnish Ministry for Foreign Affairs
MFI	Monetary Financial Institution
NGO	Non-Governmental Organisation
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OECD DAC	OECD Development Assistance Committee
OFC	Overseas Financial Centres
OSM	Ownership Steering Memorandum
PA	Priority Area
PEF	Private Equity Funds
PIF	Public Sector Investment Facility
PSI	Private Sector Instruments
RBM	Results Based Management
ROE	Return On Equity
SDGs	UN Sustainable Development Goals
SG	Steering Group
SME	Small and medium-sized enterprise
SRI	Special Risk Instrument
TA	Technical Assistance
TEKES	Finnish Funding Agency for Technology and Innovation
ToC	Theory of Change
UMIC	Upper Middle-Income Country
UN	United Nations
VC	Venture Capital
WEE	Women’s Economic Empowerment

Introduction

This Study on Private Sector Instruments (PSI Study) is a part of the strategic *Evaluation of Finland's support to Economic Development, Job Creation and Livelihoods*. The overall evaluation aims to assist the Ministry for Foreign Affairs of Finland (MFA) in understanding its strengths and weaknesses in contributing towards improving the economies of partner countries to ensure more jobs and livelihood opportunities. In order to improve future Finnish development cooperation with partner countries and institutions in this aspect, the overall evaluation assesses how Finland's objectives related to economic development, job creation and livelihoods are being fulfilled through the various thematic approaches, cooperation modalities and funding instruments.

An essential aspect of the evaluation is to provide guidance on how Finland can pursue these objectives by supporting or financing private sector projects.

The evaluation relates closely, but is not limited, to the Priority Area 2 (PA2) of the Finnish Development Policy (2016), which states that its overarching objective is that developing countries own economies generate more jobs, livelihood opportunities and well-being.

According to the terms of reference, the objectives of the overall evaluation are:

1. To assess the extent to which the objectives of the PA2 on Economy and Jobs are being achieved;
2. To determine what the MFA can learn from its peer organisations, especially the Nordics as well as from emerging international 'best practices';
3. To suggest how the effectiveness of Finnish development cooperation under PA2 can be further developed, including if and how the Results-based Management system can be strengthened.

The purpose of the overall evaluation is primarily to be strategic and forward-looking as well as utilisation focused. Consequently, the main evaluation report provides practical and implementable recommendations on how the cooperation can be made more coherent and relevant and achieve better results. This study provides an assessment and lessons learned regarding the PSIs currently at the MFA's disposal, as well as implications for their further development.

The Evaluation of Economic Development, Job Creation and Livelihoods consists of several components, which all contribute evidence to the main evaluation report. The components are:

- Main report (Volume 1.1.)
- Country Case Studies of Kenya, Tanzania and Zambia (Volume 2);
- Private Sector Instruments-study (Volume 3, this report);
- Best Practices and peer Review-study (Volume 1.1.); and
- Thematic annexes (all Volume 1.2) on
  - Energy;
  - Innovation;
  - Taxation, and
  - Women's Economic Empowerment.

Summary

This study presents and assesses instruments at the disposal of the Finnish Ministry for Foreign Affairs (MFA) for engaging private sector enterprises in economic and business development in Finland's partner countries and other emerging economies. The study focusses especially on instruments through which the MFA channels support and/or financing to private sector entities. These instruments are here called "Private Sector Instruments" (PSIs). The analysis covers six PSIs, namely: Finnfund; Finland-IFC Blended Finance for Climate Change (FIBFC); Finnpartnership: Business with Impact (BEAM); Public Investment Facility (PIF); and Finn Church Aid Investments (FCAI).

The study finds that all PSIs show at least satisfactory **relevance** vis-à-vis Finnish development policy goals, and PA 2 specifically. When it comes to relevance vis-à-vis partner country needs, there is more variance between the instruments. Due to their operational logic and model (link to partner country strategies at the programming/planning phase) Finland – IFC Blended Finance for Climate Change (FIBFC) and Public Investment Facility (PIF) appear to be most closely linked to such needs. Finnfund, on the other hand, is being guided by ownership instructions to target poorest segments of partner country societies.

Practically all PSIs are more or less demand/market driven, and thus support transition from aid to other forms of cooperation, and internationalization of Finnish enterprises.

When it comes to **effectiveness**, the lack of overall strategic guidance on PSIs and inconsistencies in current steering arrangements appear to affect negatively the effectiveness of the assessed PSIs. The weakness of strategic guidance is partly explained by the strongly differing views among interviewees (especially within the MFA) of this evaluation regarding PSIs and their relation to the goals of the Finnish development policy and cooperation. Trade-offs that are typical when public and private operational logics are combined, appear not to have been very well acknowledged and managed in the steering of PSIs.

There are inconsistencies in steering of different instruments when it comes to for example eligibility and reporting requirements, especially, when assessed against the nature of each instrument. These inconsistences reflect in the sets of policies and tools that the PSIs deploy in order to put in practice the MFA guidance/steering. For example, Finnpartnership appears currently to be overstretching to show high level development effects, and consequently overreporting.

The PSIs do not constitute a clear continuum of support, finance and services for the growth of companies or commercialization of their innovations. The situation is exacerbated by the differing, sometimes conflicting policy goals, and scarce cooperation and collaboration between the instruments (and the embassies).

The portfolios of the assessed instruments match generally well the guidance and objectives that the MFA has set for them.

The MFA is recommended to better tailor its guidance and requirements for PSIs (and the companies the PSIs fund/finance) according to the nature and role of the instruments. The rigour of ownership management as well as monitoring and reporting requirements for example for Finnpartnership and BEAM (DevPlat) should match their nature of support instruments for very early phases of business development.

In order to fill the gaps in the business/innovation development support and available financing, the MFA is recommended to:

- Review the roles and resources of instruments like Finnpartnership, DevPlat and the Energy and Environment Partnership (EEP) in a way that enables them to support companies and their projects further "downstream" towards bankability and support larger projects.
- Give Finnfund technical assistance (TA) or other funds to enable it to move "upstream" and support prospective investees to achieve bankability, and its portfolio companies in responsibility compliance and ensuring positive development effects.
- Identify ways to alleviate the compliance burden of private sector entities supported/financed by PSIs; or develop tools and financing models that cover part of compliance costs and mitigate risks the companies face.
- Reallocate human resources at the Ministry and to the embassies in developing countries in a way that would enable them more effectively support PSI operations and private sector entities.
- Consider mechanisms through which embassies could productively participate in PSI project preparation processes, without complicating such processes unnecessarily.

1 About this study

This study presents and assesses instruments at the disposal of the Finnish Ministry for Foreign Affairs (MFA) for engaging private sector enterprises in economic and business development in Finland's partner countries and other emerging economies. The study focusses especially on instruments through which the MFA channels support and/or financing to private sector entities. These instruments are here called "Private Sector Instruments" (PSIs). The analysis covers six PSIs, namely:

Finnfund

Finnfund is the bilateral development finance institution (DFI) of Finland. Its special task is to support developing countries' social and economic development by financing their industrial and other businesses. Finnfund has to be self-sustainable. Its main financing instruments are different types of equity, mezzanine and debt. Finnfund invests only in countries defined by OECD/DAC as developing countries. Its investments normally vary between appr 1 million and 20 million euros.

Finland – IFC Blended Finance for Climate Change (FIBFC)

Finland – IFC Blended Finance for Climate programme (FIBFC) is an MFA investment in a trust fund of which Finland owns 100% and which is managed by IFC. The size of the investment is €114 million. IFC is responsible for investment decisions of the Fund. Funds provided by Finland are co-invested as loans, guarantees and equity with concessional terms, alongside IFC's own resources. IFC uses the fund's resources to support high impact but risky projects in sectors that have difficulties in attracting commercial finance. The projects and sector are expected to have potential for commercial viability over time. The average size of IFC investments is 100 million USD.

Finnpartnership

Finnpartnership programme provides financial support for planning, development, piloting and training phases of projects and business activities of Finnish companies and other organizations (e.g. NGOs and research institutions) in developing countries. It also provides services related to match-making with developing country actors. The programme aims to increase commercial cooperation and promote long-term business partnerships between companies in Finland and in developing countries. Finnpartnership aims to generate positive development impacts by its activities.The MFA launched Finnpartnership in June 2006. Its management has since been outsourced by tendering to Finnfund.

Business with Impact (BEAM)

BEAM (Business with Impact) was a 5-year programme (2015–2019) financed jointly by the MFA and TEKES/BF. Programme's mission was to help Finnish companies build successful and sustainable businesses in Finland and developing countries through inclusive innovations for societal challenges. The programme offered funding for company driven projects in developing markets, covering market analysis, capability building, R&D and piloting of new solutions. The eligibility was restricted to Finnish companies, NGOs and universities in the sense that the lead partner of partnerships/consortia, and the recipient of the funding had to be Finnish. Both the MFA and TEKES/BF committed €12.5 million to the programme. Number of supported projects at the end of 2019 was 151.

Public Sector Investment Facility (PIF)

The Public Sector Investment Facility (PIF) aims to support public sector investments in developing countries that comply with the SDGs of the UN and utilise Finnish expertise and technology.

PIF is based on the investment credit provided by a financial institution to the target country. The loan becomes concessional, when the MFA pays the interest subsidy to it, and provides other support measures out of the Finnish government's development cooperation funds. At least one-third of the PIF project's contract agreement value has to consist of Finnish technology and/or expertise. PIF is managed by the MFA. There were no PIF financing decisions made yet by the MFA at the time of writing this report.

Finn Church Aid Investments (FCAI)

Finn Church Aid Investments (FCAI) is a limited liability company 100% owned by Finn Church Aid (FCA), and NGO. In August 2018 the MFA gave a €16 million loan to the FCAI. The purpose of the loan was to function as seed funding for starting the FCAI's investment operations. FCAI is an impact investor specialising in financing small and medium sized enterprises in developing countries and fragile states. The FCAI intends to offer its clients long-term financing, that they otherwise have not access to. The FCAI makes both indirect/joint (through funds) and direct investments. In direct investments it uses equity, mezzanine and loan instruments. In addition, a special role is given to TA for financed companies. For indirect investments there is no upper limit, but in direct financing the investments will be between €100,000 – 1 million.

This study feeds into the main report of the Evaluation of Economic Development, Job Creation and Livelihoods, commissioned by the MFA, but can also be read as a stand-alone document. It draws on the PSI specific information (presented in the appendixes) and raises the analysis one level higher, providing information and views on the PSIs also as a set of instruments at the MFA's disposal. The purpose of the study is, through relevance and effectiveness analysis of PSIs to contribute to the main report of the evaluation and provide the MFA with information that supports the strategic management of these instruments.

In Section 2 (Approach, methodology and limitations) the challenges and limitations of using concepts like "relevance" and "effectiveness" in assessing PSIs and separate private sector projects are discussed. Reasons for focusing the assessment of these concepts at the instrument level, and a graphical illustration of how this assessment is carried out in this study are presented in the same chapter. Section 3 (Findings and conclusions on relevance and effectiveness) presents an instrument-specific analysis, and an analysis of the PSIs as whole, following the approach depicted in Section 2. Section 4 is about Implications & lessons learned.

More detailed descriptions and analysis on each PSI, feeding into this main study and providing basis for its findings are presented in the appendixes. These instrument-specific appendixes follow the logic and structure presented in Section 2.

It is to be noted, that direct comparison of instruments is in many respects not possible or recommendable, due to their differing natures and purposes. Comparisons made in this report are of indicative nature.

2 Approach, methodology and limitations

This study focusses especially on the Evaluation Question (EQ) 1:

> *"To what extent and how are the objectives of the Priority Area 2 on economic development, jobs and livelihoods being achieved and how relevant and effective have the interventions been in relation to partner country needs. What are the lessons from this?"*

Especially the evaluation criteria of **relevance** and **effectiveness** will be discussed in this study, separately regarding each PSI as well as the set of instruments at the MFA's disposal as a whole.

Evidence and information are also provided for the EQs 2 and 3:

> *"What can the Ministry of Foreign Affairs learn from its peer organisations, especially the Nordics as well as from emerging international 'best practices' for more relevant, effective and coordinated support for economic development, jobs and livelihood opportunities?"*

> *"How can the effectiveness of Finnish development cooperation related to economic development be further developed, including if and how the Results-based Management system can be further refined as far as Priority area 2 is concerned?"*

This study contributes to answering Sub-EQ 2.3. with an emphasis on partnerships created by the PSIs, and their mutual cooperation:

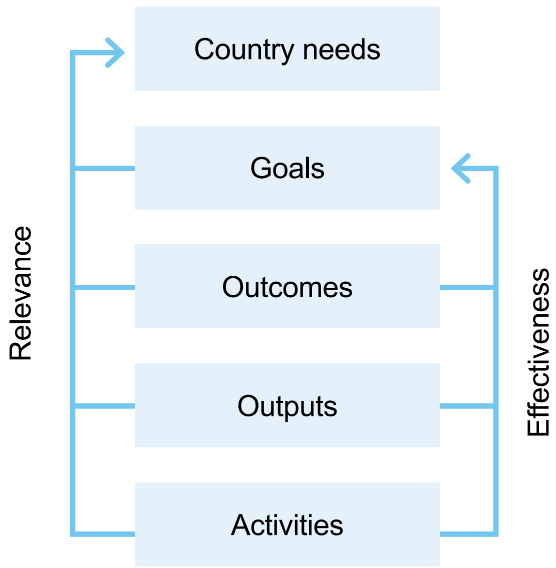
> *"Have partnerships been built between Finland's economic development interventions and those of other donors and stakeholders? Have the Finnish approaches and interventions, including pooled funding and core-type of funding, been complementary, coordinated stakeholders' and donors' efforts and adding value, as evident in the three case countries and the thematic areas studied?*

The study also contributes to answering Sub-EQ 3.5.:

> *"What lessons can be learned for Finland's Results-based Management and Knowledge Management, including reporting on results, from the performance under economic development, jobs and livelihood?"*

In the evaluation practice the terms "relevance" and "effectiveness" refer to specific concepts. The OECD/DAC defines relevance as "The extent to which the intervention objectives and design respond to beneficiaries', global, country, and partner/institution needs, policies, and priorities, and continue to do so if circumstances change" and "effectiveness" as "The extent to which the intervention achieved, or is expected to achieve, its objectives, and its results, including any differential results across groups." Both "relevance" and "effectiveness" thus describe relations of elements in the causal or contribution chain of a programme or project, as presented in Figure 1.

Figure 1 Evaluation criteria of relevance and effectiveness in programme theory



Source: Evaluation Team.

Tackling limitations

Each of the PSIs assessed in this report have supported or financed (directly or indirectly), or have in their pipelines tens, even hundreds of private sector projects in developing countries. It is important to note that:

1. Except for PIF, and to some extent FIBFC (see the attachment on FIBFC) the pursued goals/objectives of these projects and investments are not set by the MFA, the partner country government or any other public entity. They do not derive from Finland's development policy objectives (for example PA 2), or partner country plans or identified needs. The goals are normally set by private enterprises and are derived from their business interests.
2. The design in these projects/investments does not necessarily follow or is articulated using the logic of the programme theory. It follows the logic of e.g. investment calculation, co-creation process or business plan.

It is therefore not adequate to assess **relevance of individual projects** against partner country needs in the way the assessment is made in programme evaluations. The projects can be highly relevant or not relevant at all and anything in between, depending on e.g. their business model, products or technology. What can be assessed, is how PSIs supporting or financing these projects link to Finnish development policy goals and partner country needs at the instrument level.

The same applies even clearer to **effectiveness of individual projects**. Their goals are mostly not derived from partner country needs or Finnish development policy goals. They are also normally not designed using a programme structure or causal/contribution chain which forms basis for DAC evaluation criteria. Effectiveness analysis against development policy goals, and without a programme's internal logical structure would not make much sense[1].

What can be assessed, is the **effectiveness of the PSIs at the instrument level**; how and through what kind of processes does the MFA guide the instruments, and how /through what kind of policies and processes the instrument select and guide projects to match Finnish policy goals and partner country needs.

1 Unless a new / specific ToC was constructed for each project.

At the instrument level each PSI has goals/objectives related to the MFA development policy objectives; they are, after all, instruments mostly designed and at least financed by the MFA in order to support achieving development policy related (and other) goals, supposedly matching partner country needs.

In this evaluation, the evaluation criteria of relevance and effectiveness of PSIs are therefore approached at the instrument level and at the level of set of instruments at the MFA's disposal. Each PSI is analysed (in the appendixes of this study), and the findings and conclusion are presented following a content structure shown in Figure 2.

Figure 2 Content structure for PSI analysis

1. Presentation of the instrument
1.1. Operational logic
1.2. Eligibility for support

Relevance:

- What is pursued vis-a-vis MFA policy objectives;
- What is the link to partner country needs?

2. Ownership guidance and RBM
3. Policies and tools
3.1. Development effects and their assessment
3.2. ESG and risk analysis, including tax, gender and human rights
4. Relation to other PSIs
5. Portfolio
5.1. Overall portfolio
5.2. Portfolio in the case countries

Effectiveness:

- How and how effectively does the MFA guide the instrument?
- How does the instrument implement the guidance/puts it in practice?

Source: Evaluation Team.

The data and findings for item 5.2. are presented in the respective case country reports of this evaluation. "Portfolio" means here commitments, funding decisions or financing agreements by the PSIs made between 2016–2019. Data for this study has been gathered:

- From documents, statistics and other data received from the MFA and entities (like Finnfund or IFC) managing the respective PSI;
- Through interviews with a) the MFA staff responsible for PSIs and/or with expertise on them b) the staff of the entities managing the PSIs; and c) representatives of a sample of companies that have received support or financing from the PSIs;
- From public sources (MFA's, PSIs' and other relevant stakeholders webpages, brochures etc).

3 Findings and conclusions on relevance and effectiveness

3.1 Instrument-specific findings

EQ 1: To what extent and how are the objectives of the Priority Area 2 on economic development, jobs and livelihoods being achieved and how relevant and effective have the interventions been in relation to partner country needs. What are the lessons from this?

Table 1 summarizes the key instrument-specific findings regarding the evaluation criteria of relevance and effectiveness, included in the EQ1. These findings and conclusion are based on information extracted from the instrument-specific appendixes of this study. The approach for assessing relevance and effectiveness in the table and appendixes follows what has been described in Figure 2.

Table 1 Summary of instrument-specific findings

Instrument	Relevance	Effectiveness
Finnfund (Source: Appendix 1)	There is no other MFA PSI or a government special task company fulfilling the same function with similar geographic focus, volume and depth of financing operations. Finnfund strategy, new investment decisions and portfolio areas are in line with the Finnish development policy priority of focusing on poorer countries. Leveraging private funds for development is in line with United Nations (UN) Sustainable Development Goals (SDGs) and Finnish development policy. The profitability requirement affects Finnfund's risk appetite. Because of being initiatives of private businesses, the financed projects not likely to completely align with MFA purposes, or host country development strategies. Involvement of "Finnish business interest" in some of the projects promotes the transitions agenda. Ability and capacity of Finnfund to support its clients in buffering against COVID-related shocks is also hampered by the lack of Technical Assistance (TA) funds. Added value especially as a financier of small, risky investments. (Sustainability of those investments and of such a strategy not certain.) More passive role, with doubts on additionality in many lower risk investments in e.g. energy and financial sector, as well as part of debt financing.	There is evidence available of positive development effects, as well as on qualitative and financial additionality of Finnfund operations. Strong additionality in some cases is possible due to a bulk of less risky investments elsewhere in the portfolio, providing for stable, secure income. Assessing attribution of positive development effects to specifically Finnfund's share of financing is in most (not all) cases difficult. Finnfund is effective and cost-efficient in the sense that the original equity injections by the MFA have led to multiple amounts of investments, large Official Development Assistance (ODA) flows and considerable development effects (e.g. jobs) while simultaneously increasing assets in the possession of the Finnish Government. **a) Ownership guidance and RBM (also feeding in the EQ 3.5.)** The MFA ownership steering regarding Finnfund has been detailed and extensive. Reporting requirements are challenging. The Ownership Steering Memoranda (OSM) have streamlined in recent years, especially regarding the year 2020. Finnfund is a limited liability company bound by the respective legislation defining the roles and powers of e.g. governing bodies. In addition to development policy objectives and ownership steering, Finnfund must adhere also to other policy objectives related to e.g. "Finnish interest", and balance with profitability requirement and the task of mobilizing private investments for development. There is a trade-off between rigour of the government steering and purely development policy-based objectives on the one hand, and interests of co-financiers, lenders and sponsors, and the demand/market driven nature of Finnfund on the other hand. **b) Policies and tools** Finnfund tax policy is one of the most explicit and its implementation one of the most rigorous in the European development finance institutions (EDFI) – and Development Finance Institution (DFI) – family. Challenges may appear in complying with the new Tax and development Action Programme (depending on how the programme will be implemented). Among DFIs Finnfund is one of the leaders in identifying Women's Economic Empowerment (WEE) opportunities, analysing WEE effects of potential investments and focusing on projects supporting WEE.

Instrument	Relevance	Effectiveness
Finnfund (Source: Appendix 1)		**c) Role, cooperation with other PSIs (also feeding in EQ 2.3)** All Finnfund investments are partnerships of at least the fund itself the sponsor/owner/project company, and other financiers. A key role of Finnfund in partnerships is to mitigate risks for private investors. There is little natural space for a closer cooperation between Finnfund and the rest of PSIs (except FIBFC), MFA or embassies, in addition to knowledge sharing and communications. This is partly caused by the lack of instruments (at MFA's and Finnfund's disposal) that would support e.g. project development in pre-bankable business cases. One of the reasons is also the high responsibility and development effects requirements attached to Finnfund investments with correspondent costs; in order to make profitable investments Finnfund rarely takes stakes smaller than 1 million euros. The overall project size thus is thus much bigger that in the most e.g. Finnpartnership or BEAM support cases. Finnfund and PIF complement each other by one financing public, the other private entities. **d) Portfolio of support financing decisions made between 2016–2019** Finnfund portfolio is well in line with the Finnish development policy goals and government guidance. The share of relatively less risky debt and/or mezzanine instruments, and investments in financial sector is considerable.
FIBFC (Source: Appendix 2)	A clearly separate role when compared to other PSIs. The FIBFC as an instrument, and the current IFC strategy are in line with the main thrust of the Finnish Development Policy. The same applies to the FIBFC investment decisions and portfolio. The IFC country operations are in line with host country strategies. No clear link to the transition agenda of the Finnish development policy. IFC does not have policies and tools on WEE and gender corresponding to the MFA development policy goals.	The FIBFC's robust tools and policies indicate high effectiveness. Evidence also available of positive development effects. Assessing the attribution of positive development effects to specifically FIBFC is, however in most (not all) cases difficult. Strong financial and qualitative additionality is possible due to the advantageous terms of the Finnish contribution and IFC expertise in Environmental, Social and Governance (ESG). **a) Ownership guidance and RBM (also feeding in the EQ 3.5.)** The governance and management structure of the FIBFC does not fit very well with the MFA Results Based Management (RBM). It is to some extent based on trust in the IFC's integrity as well as its investment management tools and practices. For example, in tax responsibility the FIBFC complies with IFC overseas financial centres (OFC) policies, which does not allow very much leverage for Finland. Consequently, the MFA may face challenges in applying the new Tax and development Action Programme in case of FIBFC.

Instrument	Relevance	Effectiveness
FIBFC (Source: Appendix 2)		FIBFC can be a relevant and effective arrangement when it comes to mobilizing private and other capital for climate change. When it comes to other policy goals, the effectiveness is hampered by lack of control on the use of funds. **b) Policies and tools** The IFC uses its best practice tools (e.g. ES Performance Standards (PS) and International Labour Organisation (ILO) core labour standards) to safeguard against main ESG risks. IFC ESG management is of high quality. Cross-cutting issues are included in the ESG-policy and correspondent tools, screening for risks for all investments at the beginning of the investment process Human rights risks assessed as part of the ESG screening and DD. Stakeholder criticism as to the adherence co UN Guiding Principles. **c) Role, cooperation with other PSIs (also feeding in EQ 2.3)** Very little links to or cooperation with the other PSIs, and practically no concrete cooperation links to MFA country programmes and embassy activities. Little results in cooperation with Finnish companies. The FIBFC pursues collaboration with Finnish companies and stakeholders. Results so far meagre, mainly due to the IFC project size and the fact that participation in its projects often requires active role and inputs already at project development phase. **d) Portfolio of support financing decisions made between 2016–2019** Complete portfolio data not available.
Finnpartnership (Source: Appendix 3)	Finnpartnership / Business Partnership Support (BPS) fits well with the emphasis of Finnish development policy on poorer countries and is relevant from this perspective, as well as with the pursuit of engaging private sector for development. Support to private sector partnership is in line with the transition agenda. Especially the low own financing requirement supports the transition agenda in Low Income Countries (LICs). Because of being a demand driven instrument, businesses' projects are not likely to completely align with MFA purposes, or host country development needs / policies.	Finnpartnership support is given to so early stages of business development or expected result chain (towards MFA's policy-level goals) that its effectiveness against such goals is not guaranteed or cannot be properly estimate. **a) Ownership guidance and RBM (also feeding in the EQ 3.5.)** Link of the financed projects and activities to the MFA RBM is weak, due partly to the nature of Finnpartnership BPS projects. Finnpartnership supports interventions in very early phases of a) (supposed) results chain b) business development/market penetration process. Finnpartnership produces a lot of monitoring information, mostly on activity/input or output level. While Finnpartnership has aligned its processes with the new policy priorities along to changing expectations of the MFA, it is difficult to assess what actually is the relation of Finnpartnership operations to the PA2 framework: Finnpartnership may well contribute to the realization of PA2 outputs and outcomes, but causal or contribution chains are long and fragile.

Instrument	Relevance	Effectiveness
Finnpartnership (Source: Appendix 3)	Finnpartnership has various, partly competing policy goals to pursue. Some of them derive from development policy (and PA2), some are e.g. linked to the internationalization of the Finnish enterprises.	The connect between development effects assessed and monitored by Finnpartnership and especially the outputs, outcomes and indicators included in the 2020 PA2 Theory of Change (ToC) is not clear, or is strongly conditioned. Many applicants and support recipients are not familiar with development and responsibility issues and see that a rigorous screening and heavy reporting requirements do not fit well to small and medium-sized enterprises (SME) funding. A considerable part of applicants (and most of the interviewed enterprises) see the application process bureaucratic and reporting requirements heavy in relation to support amounts. **b) Policies and tools** The development effects assessment is problematic, due to: i) projects are normally in a very early phase of business development, and also in an early phase of the supposed results chain leading to effects ii) the data and information comes from applicants and are often of insufficient quality iii) there is normally an attribution problem and questions arise about effectiveness when assessing expected/reported developments effects against actual activities. Finnpartnership uses different kinds of tools and approaches to ensure alignment with Finland's policies on for example energy, innovation, WEE and taxation, but many of them do not fit very well to an early pre-investment support instrument like Finnpartnership For example proper assessment ES, including human rights risks and assessment of gender is difficult due to the projects' early phase in business development, poor availability of quality information and inexperience of applicants with ES issues. **c) Role, cooperation with other PSIs (also feeding in EQ 2.3)** There has been fairly little concrete, project focused cooperation with other PSIs during the period to be evaluated. Cooperation with BEAM on a more general level has improved during the last years of the period to be evaluated. There has been good cooperation with some Finnish embassies, e.g. in Zambia. **d) Portfolio of support financing decisions made between 2016–2019** The portion of African, least developed countries (LDCs), LIC and fragile states in the annual BPS decisions has increased clearly since 2016.

Instrument	Relevance	Effectiveness
BEAM (Source: Appendix 4)	No other PSI specifically designed for innovation support. BEAM was generally relevant vis-à-vis overriding Finnish development policy goals. However, BEAM being a demand/market driven instrument, businesses' projects were not likely to completely align with MFA purposes / policies. BEAM interventions (especially company projects) often did not have an observable link to country strategies or host country needs, or were derived from them. Host country needs however could create potential demand for new product, service or business model innovations. It is likely that BEAM has supported transition. BF and MFA appear not to have always had a uniform picture of what BEAM is and what it should do.	Effectiveness of the whole programme was good especially in relation to BF objectives for the programme. Effectiveness against MFA objectives (PA 2) more difficult to assess and ascertain. **a) Ownership guidance and RBM (also feeding in the EQ 3.5.)** The steering and reporting requirements/expectations from the part of MFA did not fit very well with the nature of BEAM. In most cases there is a gap between of what can be achieved by the programme and what was expected (in terms of reportable development effects). No rating of interventions against PA2 (or PAs generally). It is difficult to assess what is the relation of BEAM operations to the PA2 framework. BEAM may well have contributed to the realization of PA2 outputs and outcomes, but causal or contribution chains are long and based on strong assumptions. The evaluations made on BEAM did not clearly support the MFA RBM. **b) Policies and tools** BEAM did not have specific policies and tools for many of the themes/sectors of specific focus to this evaluation (including taxation). Many applicants and support recipients were not familiar with development and responsibility issues. **c) Role, cooperation with other PSIs (also feeding in EQ 2.3)** Very little actual cooperation with other PSIs, or MFA/Embassies regarding Finnish bilateral/regional programmes, in addition to exchange of information. Cooperation with Finnpartnership improved towards the end of the evaluation period (2016-2019). No link to Finland's country strategies; BEAM projects originate from businesses' needs. Role of BEAM (and other PSIs) in business development/innovation development cycle is not clearly defined and coordinated with other PSIs. BEAM has assisted in building partnerships, but in many cases their sustainability is still open. Coordination appears to have happened mainly within BF stakeholder groups, with MFA/Embassies etc. in a modest role. **d) Portfolio of support financing decisions made between 2016–2019** Majority of interventions were in upper middle-income countries (UMIC) or low and middle-income countries (LMIC).

Instrument	Relevance	Effectiveness
PIF (Source: Appendix 5)	PIF purpose and guidelines fit well with the goals of Finnish development, but also economic policies. PIF is in principle an optimal instrument for utilizing Finland's comparative advantages. Leveraging private funds (Finnvera guarantee and MFA support for concessionality) is in line with SDGs and Finnish development policy. The eligibility criteria serve the transition in some countries (e.g. LMICs), but not necessarily the development of poorest countries. Being and instrument for public sector investments, PIF should align well with partner countries' policies and needs. In practice there has been difficulties in ascertaining the ownership. There is a tension between purely development policy-based objectives on the one hand, and purely commercial interests of companies.	Effectiveness of the instrument, based on its guidance, policies and tools, is still unclear. **a) Ownership guidance and RBM (also feeding in the EQ 3.5.)** PIF does not (yet) have RBM structures and tools needed to ensure achievement of the chosen objectives. b) Policies and tools Eligibility criteria put a lot of emphasis on development effects. It is, however, still unclear, how they will be assessed and ensured. There appears to be a lot of discretion and the projects will be assessed using methods varying case-by-case. No generic PIF ToC or results chain available, neither a tool nor a model to be used in the individual projects. Appraisals have a big role in ensuring effectiveness. The appraisal ToR template is fairly generic, listing general objectives but telling sparingly how to achieve them. **c) Role, cooperation with other PSIs (also feeding in EQ 2.3)** PIF completes well the palette of other PSIs. Specifically, PIF and Finnfund complement each other in that one finances public, the other private entities. The MFA and embassies have much stronger role in PIF than in other PSIs. PIF provides a platform for applicants' partnership, though the results of such partnerships are still open. Part of the applicant companies are critical towards development policy related requirements and eligibility criteria. **d) Portfolio of support financing decisions made between 2016–2019** No funding decision as of 10 / 2020.

Instrument	Relevance	Effectiveness
FCAI (Source: Appendix 6)	FCAI business concept is highly relevant in the context of Finnish development policy FCAI invests in private enterprises, which do not necessarily align their businesses with partner country development strategies, but most likely link tightly to more local needs. The operational model (financing and TA for small, early stage investee) is very relevant, but contains a lot of risks and is cost-heavy. So far, the company has made mostly fairly low risk indirect investments, majority of which for liquidity management purpose. Such investments are not financially very additional.	FCAI intends to alleviate the cost burden and mitigate risks by collecting and deploying financial and skills donations. The intended model, however, faces e.g. regulatory challenges. It is too early to tell whether the FCAI model will work, and whether it will be effective vis-à-vis development policy related goals. Policies and commitments have not yet been fully turned into practical tools, processes and deliverables. At the beginning FCAI is dependent on the integrity, policies and tools of the partner institutions (funds) through which it invests. **a) Ownership guidance and RBM (also feeding in the EQ 3.5.)** That financing to FCAI is in a form of a loan to a private entity affects the MFA's ability to steer FCAI. There were little development policy related guidance/conditions for the loan, and subsequently unclarity regarding the relation to the MFA RBM. The guidance given to FCAI by the MFA is to a large extent based on the proposal on FCAI which Finn Church Aid (FCA) made to the MFA in 2018, and on agreement on the loan. Conditions (regarding e.g. implementation of new policies, or reporting) of a loan normally cannot be changed retrospectively. FCAI is a limited liability company with a correspondent corporate structure, and with no MFA ownership. **b) Policies and tools** FCAI is very ambitious when it comes to assessing and ensuring development effects and responsibility (e.g. ESG) of its investments. An "Impact measurement user guide" was created in 2020. The proposed elements and basic concepts described in the document follow the development effects and impact analysis practices of international DFIs. FCAI has produced a draft ESG Management System (ESGMS) policy paper. ESG Toolkit to identify risks and opportunities should be available in 2020 FCAI has no specific tax, human rights or gender/WEE policy. **c) Role, cooperation with other PSIs (also feeding in EQ 2.3)** With Finnpartnership as an exception, FCAI has had very little cooperation with other PSI or Finnish embassies. Its operational model differs significantly from the models of other PSIs.

Instrument	Relevance	Effectiveness
FCAI (Source: Appendix 6)		It has been successful in building new (C4D, BlueOrchard Microfinance Fund (BOMF)) or fostering old partnerships with, for example, the Dutch non-governmental organisation (NGO) ICCO). All individual investments, be they direct or joint/indirect are partnerships, consisting of participants with different kind roles (FCAI, co-financiers, fund managers etc.) **d) Portfolio of support financing decisions made between 2016–2019** At the moment the majority of FCAI investments are in funds investing in Asian countries. Share of direct investments and Africa are planned to be increased.

3.2 Aggregated findings and conclusions regarding relevance of the PSIs as a whole

This sub-section presents the aggregated findings, and conclusions regarding relevance of the PSIs as a whole, i.e. as a set of instruments at the MFA's disposal. These aggregated findings and conclusions are derived from the instrument-specific findings presented in sub-section 3.1. above. The logic and presentation follow also here what has been described in Figure 2.

Finding 1. All PSIs show at least satisfactory relevance vis-à-vis Finnish development policy goals. When it comes to relevance vis-à-vis partner country needs, there is more variance between them, with FIBFC and PIF being at least a priori (based on the operational logic) most closely linked to such needs, and Finnfund being guided by ownership instructions to target poorest segments of partner country societies.

Generally, the **relevance** of the assessed PSIs in relation to the objectives of **Finnish development policy** and cooperation is good. This applies also to PA2 specifically. At the level of specific instruments, some observations are worth attention, however:

- Due to eligibility constraints (eligibility for export credits) the projects in **PIF** pipeline tend to concentrate in more affluent countries (mostly LMICs) than what is the focus of many other modalities of Finnish development cooperation. This, however, matches with the idea of transition.
- The potential difference between relevance at the level of instrument and at individual project level is greatest in **Finnpartnership** and **BEAM**. These instruments themselves are relevant, in pursuing partnerships between Finnish and developing country enterprises and supporting innovations for development, respectively. The relevance of individual interventions varies a lot and cannot often be assessed in a meaningful way.
- Practically all PSIs are more or less demand/market driven, which does not optimally fit with the alignment with the Finnish policy goals and the MFA RBM. At the same time, it is exactly because for this reason that they mostly support **transition** from aid to other forms of cooperation, as well as the other Finnish policy goals (e.g. internationalization of Finnish enterprises).

Regarding **relevance vis-à-vis partner country policies and needs**, there are differences between the instruments

- In principle **PIF**, being a tool to finance public sector investments is the one most tightly linked to the partner country policies and needs. The owner of the project is always a partner country public entity. In practice the weak ownership and lacking partner country commitment has been one of the factors hampering PIF projects.
- A priori, **Finnpartnership** and **BEAM** as instruments do not necessarily have country-specific relevance. They serve mainly Finnish companies' and their consortia's interests to sound out developing country markets, find partners and test their technology/product/business models there.
- Being markedly an "impact first" impact investor, and due to its business model of combining repayable financing and monetary/skills donations, **FCAI** is likely to be linked to the needs of local beneficiaries.
- **Finnfund's** role and mission link directly to developing countries' needs, but not necessarily to any specific partner country's development strategies or the identified constraints. Since Finnfund investments and investees are much larger than e.g. Finnpartnership and BEAM projects, and actually have business operations in partner countries, they have more links to the business environment (taxes, licences, concessions, subsidies etc.) created by the government's economic policy. Finnfund investments are thus likely to be at least to some extent aligned with the partner country's policies and strategies; especially in developing markets, where public sector often has a lot of influence, an investment may have little chance of success if it conflicts with what the government wants. Finnfund's ex-ante development effects assessment tool (DEAT) also gives better scores for projects with positive effects on poor segments of population, and the fund has a target set by the MFA for such projects.
- **FIBFC** is the only PSI assessed that has country strategies (via IFC's country level planning), designed in cooperation with partner countries. Consequently, though FIBFC is demand driven and always dependent on private sector's initiatives, there appears to be strong indication that it is linked at least to official strategies and perceptions of what the country needs.

3.3 Aggregated findings and conclusions regarding effectiveness of the PSIs as a whole

This sub-chapter presents the aggregated findings, and conclusions regarding relevance of the PSIs as a whole, i.e. as a set of instruments at the MFA's disposal. These aggregated findings and conclusions are derived from the instrument-specific findings presented in sub-section 3.1. above. The logic and presentation follow what has been described in Figure 2.

3.3.1 Ownership guidance and RBM

Finding 2. The lack of overall strategic guidance on PSIs and inconsistencies in current steering arrangements affects negatively the effectiveness of the assessed PSIs.

There was a lot of interest and differing views among interviewees of this evaluation towards the PSIs and their role in relation to the PA 2 and goals of the Finnish development policy and cooperation in general. This is not surprising, bearing in mind how recently private sector entities have become a key element of development cooperation. For a long time, development was pursued mostly through activities, policies and programmes designed and implemented by public or third sector, based predominantly on grants or at least concessional funding. It was possibly only after the international community agreed on SDGs and acknowledged the scale of the challenge caused by climate change that private sector was brought in the mainstream of development policy and cooperation[2]. It was acknowledged that public budgets or private donations would never suffice for the actions required to achieve SDGs, or to bring about necessary changes in e.g. energy production and use, or consumption patterns needed to tackle climate change. The financial and human resources, skills and technologies of private sector, and the ability of companies to organize and coordinate these factors are needed. A private company can generate the kind of positive effects to its stakeholders and to the community that public sector operators cannot. Such effects can be visible or invisible (externalities) in the financial and operational planning and reporting of a company.

Involving private sector in development, however, requires at least some kind of alignment of interests. Policy makers and public entities aspiring to engage private sector need to design new tools and instruments so that the key driving forces and operational logic of private sector, including search for profit, are acknowledged and can be leveraged for development purposes. The assumption that private companies would embrace, or could be directed to embrace the same values, aims and operational models as the "traditional", grant and public funding -based development policy, is not realistic. Private sector faces a mirroring challenge. Public funding like ODA is always bound to some policy purposes. It always has strings attached. Such funds cannot be used as freely as a company's own financial and other resources.

The MFA has no private sector strategy in which such deliberations could be presented and communicated to stakeholders. More importantly, based on e.g. interviews made for this evaluation, it appears the MFA does not have a uniform, reasoned view on what it wants from its private sector partners, and how to achieve it with the PSIs. This indecisiveness materializes and affects the effectiveness of MFA development policy and its use of PSIs at least in two ways:

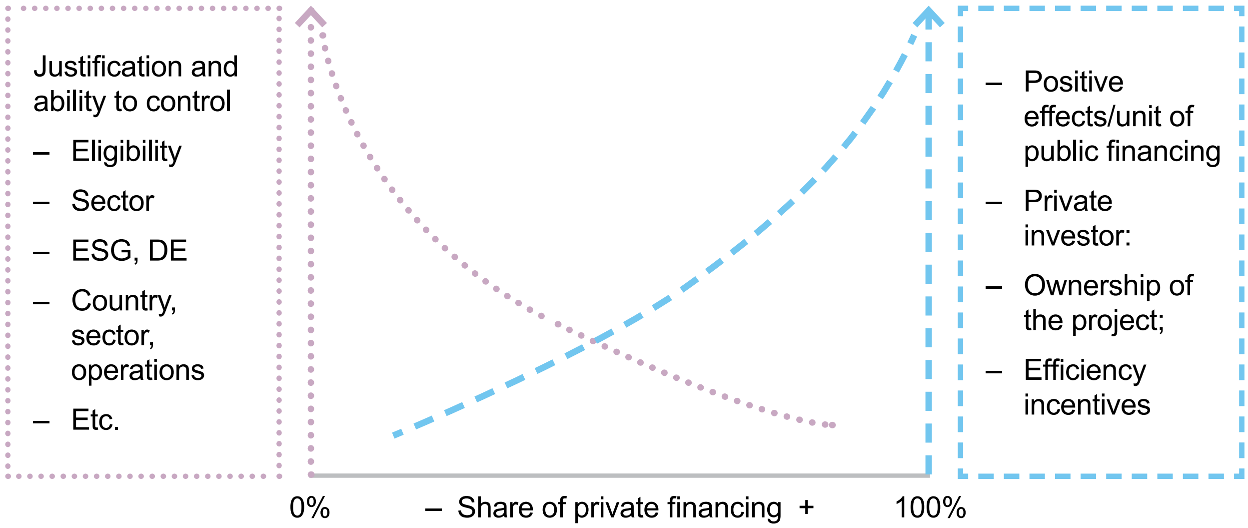
- Trade-offs are not acknowledged in the steering of individual instruments;
- There are inconsistencies in steering of different instruments.

Trade-offs are not acknowledged in the steering of individual instruments.

The interests of public sector policy makers and private sector entities have to align, but they cannot align completely. Leveraging private sector resources for public sector policy purposes necessarily creates a somewhat uneasy co-habitation with several trade-offs, many of which were pointed out by interviewees for this evaluation. Some such trade-offs have been illustrated in Figure 3, in which the share of private financing has been chosen to be the independent variable. Same interdependencies could be described also by choosing e.g. the rigour of guidance as the determining, independent factor.

2 See e.g. the Addis Ababa Action Agenda by the Third International Conference on Financing for Development. 13–16 July 2015. Addis Ababa, Ethiopia.

Figure 3 Trade-offs when using PSIs



Source: Evaluation team. The figure is for illustration purposes only and not based on any specific theory or research.

The more public actors can leverage private finance for development purposes, the better. At the same time, the more efficiently they leverage, the less they have legitimacy and often also means to determine the use of private money in the projects financed from both sources. Activities with large private sector share of financing cannot be subjected to the same rigour of steering as mostly publicly financed ones without affecting the willingness of private sector to put their resources in those activities. Easing the control in accordance with the rise of the private share of financing is the price public sector has to pay for the achieved extra development effects.

The evaluation did not find any evidence in the documentation, interviews and other sourced used for this evaluation that the MFA that would have acknowledged such trade-offs, analysed them and taken a consistent, reasoned stance on them. They do not show in any guidance document, guideline or agreement made on the implementation of PSIs that the MFA has produced or is a party to. The interviews and documentation, however, provided lots of examples of such trade-offs:

- Though for example Finnfund is for a large part (appr. 1/3) financed from capital markets, no deliberations or position can be found on how to balance between development policy interests and lenders' interests, and on the role of ownership steering in this.
- The in practice twofold (the MFA and BF) objectives and assessment structure of BEAM. Many BEAM-funded companies have found especially the development and responsibility related requirements difficult to understand, heavy and bureaucratic.[3]
- The heaviness of eligibility requirements, application and reporting, in relation to the volume of support of the Finnpartnership BPS. In the small sample of supported companies interviewed for this evaluation, majority (three of the five interviewed companies) complained of this. (One of five was happy with the criteria and requirements and one did not have a stand). One company told it will not apply Finnpartnership funding anymore because of the bureaucracy of the application, and of reporting requirements.

3 Such views were expressed by many enterprises also. e.g. during the impact ex-ante assessments of BEAM projects, and when a sample of Finnish companies participating in the VMAP (Vietnamese Market Access Programme) were interviewed for the final evaluation of the Innovation Partnerships Programme between Finland and Vietnam.

- Requirements on environmental, social and human rights impact assessments as a condition for PIF support. In a workshop, arranged for applicant companies by the MFA, majority (8 of 12) of the companies found the either too heavy (5) or relevant but challenging (3). (3 companies did not have difficulties with the requirements, and one did not have an opinion).
- Difficulties that FCAI faces when trying to combine the costs of DFI-level impact and responsibility management with profitability in small investments.

The PSIs differ very much in their ability to cope with such trade-offs and in how the trade-offs affect the supported/financed companies. For example, FIBFC and Finnfund can cover the compliance costs from their financial incomes, and their investee companies are normally larger, more able to shoulder the extra costs. As for Finnpartnership and BEAM, and the smaller companies they support, the challenge is much more substantial. This manifests in formal requirements (by the instrument) of and declarations of commitment (by the applicants) to ambitious responsibility standards, with actually little capacity and possibilities of the supported entity to comply with them, and the instrument's management to monitor and ensure the compliance.

The rigorous ownership requirements direct e.g. Finnfund towards larger investments to cover the compliance costs. This is one of the key reasons for the gap in the monetary sizes of finance products the PSIs currently offer to private sector (see Figure 4).

Inconsistencies in steering of different instruments

The rigour of the MFA guidance and control varies a lot between the PSIs, in a way that does not appear to be very logical. Examples include:

- In the case of FIBFC, there is an agreement on the use of funds between Finland and the IFC, and programme document with general eligibility guidance attached to it. In practice the decisions of how the individual investments with aggregated value of US$114 million are made is left to the IFC machinery. Finnfund, or even Finnpartnership are much more rigorously or "manually" steered that the FIBFC. Finnfund receives an annual OSM, with detailed objectives and targets against which it has to report. In Finnpartnership, the MFA control is very tight and the Ministry even makes all (sometimes very small) separate support decisions. When it comes to BEAM, the MFA role in project selection is obscure, especially when it comes to selection criteria and their application.
- The supported / investee companies of both Finnpartnership and FIBFC are expected to commit to IFC PS. The ability and resources of the client/investee companies to comply, the nature and size the supported projects, as well as these instruments' ability to secure the compliance, are however lightyears away from each other.
- As for development effects /impacts, including e.g. jobs reporting, Finnfund and Finnpartnership are both being steered in a meticulous manner. (How feasible it is to try to assess employment effects of Finnpartnership support, is a question in itself.) In PIF projects, however, the guidance on development effects assessment is of a fairly general nature and the assessment depends much on the consultant carrying out the appraisal.

Sometimes, a one-size-fits all approach is used in the steering/guiding the PSIs, sometimes requirements differ from each other. No explanation and/or reasoning is available that would justify these choices. With some simplification, it can be said that the MFA steering appears to be most rigorous and detailed in the cases of Finnfund and Finnpartnership, and most relaxed in the cases of FIBFC and BEAM.

3.3.2 Policies and tools

Finding 3. There are considerable differences in the sets of policies and tools that the PSIs deploy in order to put in practice the MFA guidance/steering. Finnfund and FIBFC have the most complete and systematic sets of policies and implementation tools, which implies high effectiveness. Finnpartnership puts a lot of conditions and reporting requirements for its support in relation to the monetary value of the support. Direct comparison of instruments in this respect is, however, not recommendable, due to their differing natures and purposes.

Effectiveness of an instrument to implement its goals depends, besides on how it is guided/steered by the MFA, also on how it puts the guidance in practice. Table shows how the guidance on the themes emphasized in this evaluation is implemented by each of the PSIs.

Table 2 Implementation of the MFA guidance by the PSIs

PSI	Environ-mental risks	Social risks	Human rights risks	Gender/ WEE	Climate change	Other deve-lopment effects	Tax	Country needs
Finnfund	3 P [4] T	3 P [4] T	3 P T	2 P T	3 P [4] T	3 [2] [7]	3 P T	0
FIBFC	3 [5] P [5] T	3 [5] P [5] T	2 [1]	0	3 [5] P [5] T	3 [2] [8]	0 P 5)	2 P [5] T [6]
Finnpartner-ship	3 T [5]	3 T [5]	3	1	1	2	0	0
PIF	1 T [5]	1 T [5]	1	0	1	1	0	3
BEAM	1 [9]	1 [9]	0 [9]	0	1	1 [3] [9]	0 [9]	1
FCAI	3 P	3 P	1	0	0	3	0	0

1) Integrated in the ESG screening (IFC Performance Standards)
2) IFC Operating Principles for Impact Management
3) Extensive reporting but mostly for Business Finland purposes
4) Finnfund sustainability policy
5) IFC Sustainability framework
6) Country strategy
7) Development effects assessment tool (DEAT)
8) AIMM
9) An elementary ex-ante development effects and ESG risks assessment tool.

P = Policy, T= Tool
Rating:
0 = Not mentioned or no information available
1 =Mentioned in the eligibility criteria
2 = Used in monitoring and reporting
3 = Compliance linked to support/finance and used for influencing

Source: Own analysis based on information from PSIs/their management organisations, their web pages, and MFA

The instruments differ from each other, are meant for different kind of purposes and work with different kind of enterprises. They are thus not directly comparable with each other, which also applies to policies and tools listed above. This said, of the PSIs assessed here **Finnfund** has the most extensive set of policies and tools for implementing the MFA steering. It also uses those tools and policies actively and conditions financing to the investee's compliance with ESG and other requirements.

The **FIBFC** has also very elaborate apparatus to safeguard against risks and ensure positive development effects. The IFC is often considered the best practice and benchmark in among DFIs when it comes to assessing development effects, ensuring responsibility (IFC PS) and managing investments for impact. The scope and content of the IFC policies and tools do not, however totally match with the Finnish development policy priorities (e.g. human rights and gender/WEE).

FCAI is a very ambitious initiative aiming at best practice responsibility and effectiveness management in the impact investment field. Various policies and tools are being developed but rolling them out to actual investments has just begun.

Finnpartnership puts a lot of conditions for its support, requires a lot of reporting from supported companies, and produces a lot of reporting itself. How effectively Finnpartnership is able to contribute to the Finnish development policy goals, is however not sure. The nature of Finnpartnerhsip BPS projects[4] explains part of this uncertainty.

BEAM had perhaps the least policies and tools to support its contribution to the development policy goals, or to produce information indicating such contribution. This was presumably linked to the dual nature and ownership of the programme (by both the MFA and the Ministry of Economic Affairs and Employment).

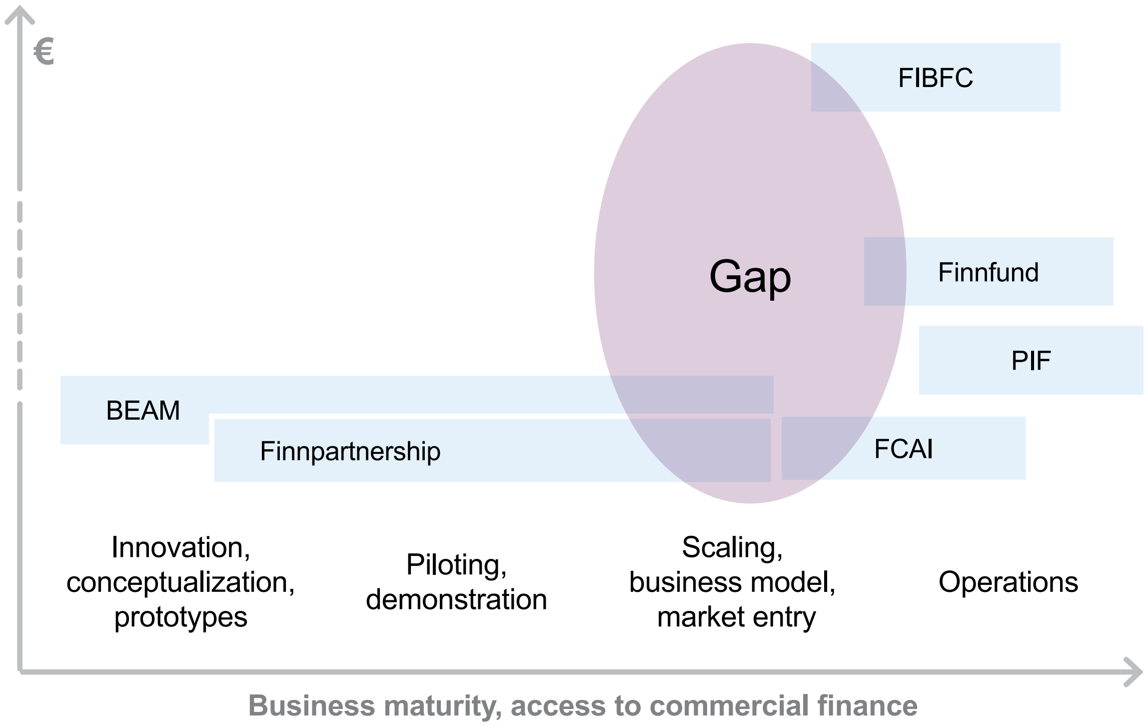
3.3.3 Role, cooperation with other PSIs

Finding 4. The fact that the (1) PSIs do not constitute a continuum of support, finance and services for the growth of companies or commercialization of their innovations affects negatively their effectiveness and the effectiveness of the PSI palette as a whole. The situation is exacerbated by the (2) differing, sometimes conflicting policy goals and (3) scarce cooperation and collaboration between the instruments (and the embassies).

There are many ways to describe stages of business growth and/or scaling of innovation, and the availability of finance to these stages. Below, in Figure 4 a simplified depiction of growth/innovation continuum and the size (in monetary terms) of targeted interventions is made, and the MFA PSIs roughly placed in positions along this continuum.

4 Their goals are tightly linked to applicant's business purposes. See the attachment on Finnpartnership.

Figure 4 The PSIs in relation to a) the size of finance and b) to the business development and/or scaling of innovation



Source: Own diagram.

At a more detailed level, the following elements underpin the main finding:

There is no clear continuum of the instruments so that appropriate support and/ or financing would be available for each stage.

Especially the gap between BEAM and Finnpartnership on one side, and the rest of the instruments on the other is large. BEAM and Finnpartnership provide(d) support to initiatives and projects that are often at the early stages of business or innovation (service, technology, business model) development, with little certainty of commercial profitability. The rest of the instruments finance investments or transactions of businesses that are already fairly established, with reasonable reliability of future cash flows and repayment, with return, of invested capital.

Of the instruments on the right-hand side of the graph FCAI appears to have – or at least plans to have – an active role in supporting investees in their business development. FIBFC on the other hand, being part of the World Bank Group, can draw on the group's other members and their resources for e.g. TA to boost the investees' governance, ESG management and overall operations, thus enhancing their performance and bankability. The scale of FIBFC projects, however makes a link to Finnpartnership and BEAM projects unlikely.

Finnfund, unlike many European DFIs, has no specific funds at its disposal for project development and/or TA. It thus has fairly limited ability to move "upstream" in business development and support potential investees in their strive towards bankability. The same applies to PIF, which in practice requires the financed products/services already to be reliable, tested and provided by commercially established companies.[5]

5 For example, in Sweden there is an instrument (Swedfund Project Accelerator) that supports Swedish companies in preparing export projects to developing markets.

There is a gap also in what regards the volume/size of the available finance/support instruments, and the size of projects/businesses the PSIs focus on. FIBFC is in its own class with its on average US$100 million investments. Finnfund provides the second biggest financial inputs. Then there is a major gap, between investments of and projects financed by Finnfund; and funding (and respective project size) provided by e.g. Finnpartnership and BEAM. (There are not yet data available of the volumes of PIF projects.)

The challenges faced by FCAI shed light on the factors behind these gaps. If one wants to prepare for the risks of investing in emerging markets and cover the responsibility and other compliance costs, the projects have to be sufficiently sizeable, the expected return has to be high, the portfolio has to include some low-risk "cash-cow" investments and/or the investor has to have an access to low-cost financing, or even donations. The result of such factors is a Finnfund-like investment strategy with fairly high (€1 million) minimum investment size.

There are some overlaps.

Whereas the FIBFC, Finnfund, PIF and FCAI complement each other fairly well (or at least do not provide very strongly overlapping financing), BEAM and Finnpartnership supported partly overlapping functions and business development stages (e.g. piloting, demonstration, partner identification). There are also many examples of companies that have been supported by both instruments. The information gathered in this evaluation did not totally clarify how the distinction as to the purposes or scope of the supported projects was made.

The instruments have differing policy goals.

Though all instruments have been designed or at least approved, and funded by the MFA, the goals and operational logic of the instruments differ from each other. The most common policy goals of the instruments are the ones related to development policy on the one hand and the "Finnish interest" (export promotion/ internationalization of Finnish enterprises) on the other. This dual goal setting is mostly visible in BEAM, PIF, Finnpartnership and Finnfund, whereas not that prominent in FIBFC (weak link to Finnish interests) and practically inexistent in FCAI (no link to Finnish interest).

Differing policy goals, again, make it difficult for the PSI to function as a continuum of support/ financing tools. This was observed by several of the companies interviewed for this evaluation: "*Very useful but very messy*"; "*Differing policy objectives affect the consistency of the support they provide*"; "*One instrument emphasizes global equality, the other business interests of the applicant*".

With such differences and gaps separating the instruments, it is not surprising that there has been fairly little cooperation between them. For example:

- Though partly overlapping, BEAM and Finnpartnership did not actually cooperate especially at the beginning of the period (2016–2019) to be evaluated. In the final years of this period, however, cooperation and exchange of information improved, resulting e.g. in joint application and SDG workshops. The evaluation was however not informed of any specific mechanism of coordinating the support decisions between the programmes.
- BEAM also had few links to the implementation e.g. MFA country strategies, and/or to bilateral or regional projects related to private sector development.
- FIBFC has little to do with other instruments, except Finnfund (one potential joint investment in the pipeline).
- FCAI appears to operate fairly separated from other instruments.

Except PIF, and to some extent Finnpartnership, the instruments assessed here have little cooperation with MFA /embassies in addition to more general level exchange of information and co-participation in different kinds of events. The embassies have a very minor role in the support/finance selection and management processes of the PSIs.

3.3.4 Portfolio of support decisions / financing agreements made between 2016 and 2019

Finding 5. Generally, the portfolios of the assessed instruments match the guidance and objectives that the MFA has set for them. Guidance, policies and tools have, in such cases, been in line with each other.

The support/investment decisions (2016–2019) of the PSIs are presented in the respective annexes. Being mostly demand/ market driven, the PSIs do not, unless they have been given geographic eligibility restrictions, necessarily focus on projects / investments in the poorest countries. This is especially visible in PIF project proposals and BEAM interventions, of which a fairly large share goes to LMICs or UMICs. Of the Finnpartnership's BPS projects, Finnfund investments and FIBFC commitments a major part, in some years even the majority has gone to Africa and especially to LDC or LIC countries. During its first years of operations FCAI has made mostly joint/indirect (through funds) investments in LMIC or even UMIC countries, partly for liquidity management purposes.

The same applies to the sector division of the supported/financed activities. Finnfund and FIBFC, for example, have in their strategies or programme documents a sector prioritization defined by the MFA, and their financing decisions follow these instructions. PIF also has sector prioritization, though a more relaxed one, and it is not yet certain, what will the sector distribution of the portfolio be like once the pipeline projects proceed to decision phase. BEAM and Finnpartnership do not have sector limitations, and the sector distribution is highly dependent on the applicants' business interests.

3.4 Summary of aggregated findings regarding relevance and effectiveness of the PSIs as a whole

Table 4 summarizes the aggregated findings regarding relevance and effectiveness of the PSIs as a whole, against EQ1.

Table 3 Aggregated findings, EQ 1

Evaluation criteria	Findings
Relevance	All the PSIs have got at least satisfactory relevance vis-à-vis Finnish development policy goals. When it comes to relevance vis-à-vis partner country needs, there is more variance between them, with FIBFC and PIF being at least a priori (based on the operational logic) most closely linked to such needs, and Finnfund being guided by ownership instructions to target poorest segments of partner country societies.
Effectiveness	
a) Ownership guidance and RBM	The lack of overall strategic guidance on PSIs, and inconsistencies in current steering arrangements negatively affect the effectiveness of the assessed PSIs.
b) Policies and tools	There are considerable differences in the sets of policies and tools that the PSIs deploy in order to put in practice the MFA guidance/steering. Finnfund and the FIBFC have the most complete and systematic sets of policies and implementation tools, which implies higher effectiveness. Finnpartnership puts a lot of conditions and reporting requirements for its support in relation to the monetary value of the support. Direct comparison of instruments in this respect is, however not recommendable, due to their differing natures and purposes

Evaluation criteria	Findings
c) Role, cooperation with other PSIs	1) PSIs do not constitute a continuum of support, finance and services for the growth of companies or commercialization of their innovations. Gaps in the offered financing/support and in the targeted project size are partly caused by the compliance costs of the stringent MFA guidance, and lack of tailoring it according to instruments' roles and characteristics. 2) The instruments have differing, sometimes conflicting policy goals. 3) There is relatively little cooperation and collaboration between the instruments (and the embassies). 1), 2), and 3) negatively affect the effectiveness of the individual instruments and of the PSI palette as a whole.
d) Portfolio of support decisions / financing agreements made between 2016 and 2019	Generally, the portfolios of the assessed instruments match the guidance and objectives that the MFA has set for them. Guidance, policies and tools have in such cases been in line with each other.

4 Implications and lessons learnt

1. The MFA is recommended to better tailor its guidance and requirements for PSIs (and the companies the PSIs fund/finance) according to the nature and role of the instruments. For example, Finnpartnership appears currently to be overstretching to show high level development effects, and consequently overreporting. The rigour of ownership management as well as monitoring and reporting requirements for instruments like Finnpartnership and BEAM (DevPlat) should match their nature of support instruments for very early phases of business development.
2. In order to fill the gaps in the business/innovation development support and available financing, the MFA is recommended to:
   a. Review the roles and resources of Finnpartnership, DevPlat and the Energy and Environment Partnership (EEP) in a way that enables them to support companies and their projects further “downstream” towards bankability, and support larger projects.
   b. Give Finnfund TA or other funds to enable it to move “upstream” and support prospective investees to achieve bankability, and its portfolio companies in responsibiltiy compliance and ensuring positive development effects.
   c. Either identify ways to alleviate the compliance burden of private sector entities supported/financed by PSIs; or develop tools and financing models that cover part of compliance costs and mitigate risks the companies face. Both alternatives would narrow the support/financing gap now visible between the PSIs’ offerings.
3. Reallocate human resources at the Ministry and to the embassies in developing countries in a way that would enable them more effectively support PSI operations and private sector entities in their quest for partnerships and market access.
4. (Conditioned by the realization of the item 3 above): Develop mechanisms through which embassies could feed specific, tailored market and other relevant information in PSI project preparation processes, without complicating such processes unnecessarily.

PSI Appendix 1: Finnfund

Presentation of the instrument

Finnfund is the bilateral development finance institution (DFI) of Finland. Its operations are stipulated by the Finnfund Act.[6] The legal form of Finland is limited liability company, so it also complies with e.g. the Limited Liability Companies Act, which is relevant regarding its governance and the execution of the governments ownership policy.

Finnfund is a special task company of the government of Finland. Its special task is to support developing countries' social and economic development by financing their industrial and other businesses. Purpose of Finnfund is not to generate profit for its shareholders. It does not give dividends. Return from its operations is used to finance new investments. The company has to be self-sustainable; the MFA sets a return on equity (ROE) target for Finnfund in its annual Ownership OSM.

According to the current government programme of Finland (2019) "*achieving the sustainable development goals (SDGs) requires not only public measures but also substantial private investments in developing countries' climate actions and in their promotion of equality and creation of decent jobs*". Finnfund is one of the key instruments at government's disposal to promote this goal.

Finnfund invests only in countries defined by OECD/DAC as developing countries.

In addition to development policy objectives, Finnfund must adhere also to other policy objectives related to e.g. the "Finnish interest".

There must be Finnish interest involved in the investments, but Finnfund does not invest in Finnish companies and it is not an export finance institution. Finnish interest may mean e.g. Finnish technology or Finnish ownership in developing country investee companies. In practice the "Finnish interest" is in most cases interpreted through the broad definition that includes also development or climate policy goals of the Finnish government. The "Finnish interest", when equal with business interest, promotes transition.

Finnfund's long term development policy objectives also have to be balanced with shorter term profitability requirement and the task of mobilizing private investments for development[7].

The MFA's capital injections to Finnfund are not counted and reported as ODA. Instead, ODA is counted as the annual net equity flows of Finnfund operations. Finnfund lending to companies does not count as ODA.

Original capital of Finnfund came from the Finnish government. Currently Finnfund's shareholders are the State of Finland (94.7 percent), Finland's export credit agency Finnvera (5.2 percent) and the Confederation of Finnish Industries (0.1 percent).

Table 2shows how Finnfund financing resources have increased by the MFA during the period 2016–2019.

6 Finnfund Act (291/79).
7 See e.g. OSM, Finnfund Articles of Association and the Finnfund Act.

Table 4 MFA capital for Finnfund 2016–2019.

	2016	2017	2018	2019	
Amount (€millions)	130	10	10	210*	10
Instrument	Long term convertible loan	Capital increase (equity)	Capital increase (equity)	Long term convertible loan	Capital increase (equity)

(*) Included in the MFA interventions statistics in the main report)

Source: MFA: Development Cooperation projects Funding decisions 2016-2019 and Finnfund Annual reports.

When estimating the overall financial impact that Finland has on the economies of developing countries, it is to be remembered that government capital injections form only about one third of Finnfund's financing resources, the rest coming from retained earnings and long-term external capital (including MFA loans). Retained earnings in Finnfund's balance sheet were appr. €70 million at the end of 2019. The equity ratio[8] was 43.3%.

Finnfund has been profitable in all years during the evaluation period, though sometimes achieving the ROE target has posed challenges.

Finnfund uses the financial resources it receives from government to leverage more finance first from financial markets and then at investment level. This explains the fact that Finnfund's investment decisions for developing countries' companies total ca. €744 million during the period to be evaluated. The company's share capital on 31 December 2019 was appr. €197 million. New investment decisions were made for €237 million in 2019 alone. The value of investments in the portfolio was €617 million (in addition there were undisbursed commitments for €177 million).

Though only net equity flows are counted as ODA, the cumulative ODA payments by Finnfund have exceeded the cumulative capital injections in the company by the MFA.

Being partly financed from markets, Finnfund has to pay attention to the overall risk of its portfolio. Lenders have to be able to trust in its ability to repay

Presumably due to this balancing between different kind of expectations the evaluation of Finnfund in 2018 suggested the ROE target set by the MFA to be reviewed.

To enable Finnfund to make riskier investments in the difficult circumstances, the MFA issued a guarantee, the Special Risk Instrument, SRI ("Erityisriskirahoitus", ERR) for Finnfund in 2012. SRI was to cover part (max. 60 %) of the credit and investments losses in a portfolio of investments selected by the Board of Finnfund. The SRI was capped to €50 million and guarantees could be approved only until the end of 2015. More detailed guidance for Finnfund on the use of the guarantee was given annually by the MFA.

An evaluation on SRI was made in 2017, according to which investments under the instrument had been relevant in changing the composition of the Finnfund portfolio towards higher risk investments in lower middle-income and LDC countries with a higher expected development impact targeting a higher level of poor people. After the evaluation the MFA decided in 2018 to issue a new SRI of €75 million for the years 2018–2023. This amount also covers the previous loss compensation commitment of €50 million. State pledges to compensate Finnfund for a maximum of 60% of credit losses and investment losses on projects covered by special risk financing.

8 Equity ratio = (Equity/ Balance sheet total – advances received) x 100%

Operational logic and eligibility for financing

Finnfund invests in profitable, responsible companies in developing countries. Normally the investees are well established companies and/or projects, but there are also some start-ups in the current portfolio (including in the two case countries). In the current strategy the eligibility for Finnfund financing is defined as follows: "*We will apply clear criteria in project selection and other decision-making. The key criteria are development impact and responsibility, risks related to projects and their operating environments, profitability, and Finland's interests*."

Finnfund does not concede grants; all its financing has to be paid back with risk-related return. The risk-yield-ratios have to be compatible with the self-sustainability and ROE target of the company itself. The main financing instruments are different types of equity, mezzanine and debt.

Finnfund is a demand and market driven instrument in that it finances normally only a part of the client company's investment and remains a minority owner in cases of equity finance. Being able and willing to assume risky positions in financing structures, Finnfund mitigates the risk of other financiers – other DFIs or private, purely commercially oriented ones – thus potentially drawing in and paving way for additional capital flows.

The majority of financing for clients' investment comes from other sources not bound by the MFA guidance. The initiative for investment comes from private businesses, which must find Finnfund terms of financing acceptable and competitive. Finnfund investments therefore are per se partnerships of at least the fund itself, the sponsor/owner/project company, and other financiers.

The Finnfund financing process takes into account the relevance of the potential investment and its coherence with host country development needs and policies. This analysis, however is made more as an element of assessing the business plan and its feasibility. Investments are much more likely to be successful if implemented in an environment in which legislation, regulation and policies of the host country government support them.

Unlike many other (including Nordic) DFIs Finnfund does not have a TA fund or a similar pool of financial resources that could be used for e.g. project development, enhancement of clients' ESG performance, or to support investees facing difficulties because of covid-19. Several of Finnfund's investees would have needed such support since the beginning of the pandemic.

The 2018 evaluation recommended such TA funds to be allocated for Finnfund, and the fund itself has repeatedly made such a proposal for the MFA. In the OSM for 2020 this option was held open. During this evaluation it turned out that such funds will not be available.

Finnfund was the first company in Finland to sign to the **IFC Operating Principles of Impact Management** (see briefing on the FIBFC, the PSI Annex 2) Finnfund has also published its first report on its alignment with the "Principles". The "OP Finnfund Global Impact Fund I", which Finnfund established in 2020 together with the OP group (which manages the fund) also committed to the "Principles" right from the beginning.

Investments through funds

Finnfund channels part of its investments through intermediary structures like private equity funds (PEF). Such funds are normally structured so that Finnfund (and other investors) acts as a "limited partner" (LP) who, like the term describes, have limited liability of the operations and investments of a fund. This arrangement mitigates investors risk and shares it among participants, thus allowing investments in high risk projects. Often the LPs also sit in the advisory committee or similar that discusses strategic issues but is not involved in daily management of the fund, or its investments decisions.

Specialized management companies normally build such funds and raise capital for them. The manager invests in the fund, too, as a "general partner". The manager identifies potential investees and makes the investments suitable for the fund agreement and investment policy, manage the portfolio, report to LPs and carry out the exit from investments.

The poorer the country, the more uncertainty there often is in the operational environment of companies regarding e.g. taxation and profit repatriation treatment of foreign investments. Management companies are normally physically present in the market and draw on the expertise of local finance professionals. DFIs like Finnfund therefore use funds to lower the risk of investing in difficult markets, and to reach companies that would otherwise fall below their radar.

Managers often registrate their funds in in OFCs. For funds investing in Africa this often means Mauritius. OFCs attract fund registrations by deliberately offering clear and predictable legislation and regulation (which often lacks in poor countries in which funds invest). Taxation is made simple and transparent, corporate tax levels are low and since OFCs normally have investment protection agreements with a big number of countries, the risk of double taxation is low. With the help of OFCs' financial regulation and services, capital flows from different sources can be united in a fund in a tax neutral way.

Such circumstances can, however, also be used to avoid taxation of international capital flows, and the use of OFCs in connection of DFIs' fund investments have been heavily criticized. Accordingly, the MFA has in the OSM for 2016–2019 given guidance on e.g. where the funds Finnfund participates in can be registered. Finnfund has in practice limited the number of its annual fund investments to one or two. Reporting requirements of fund (e.g. jobs and taxes) have also been increased. Since fund investments are often made for many years, the Finnfund portfolio still contains many such investments, for which agreements do not contain the new, more rigorous reporting requirements.

Major part of the funds in which Finnfund invests focus on micro, small and medium enterprise (MSME) financing, the rest focusing on the priority sectors defined in the Finnfund strategy.

The share of funds of both the value of new investments, and of the value of the portfolio has been decreasing in recent years (see Table 3).

Table 5 Share of funds of Finnfund investment decisions and portfolio 2016–2019

Share of funds …	2016	2017	2018	2019
… of the value of new investment decisions	0%	16%	15%	13%
… of the portfolio	20%	17%	16%	15%

Source: Finnfund

In relation to many other European DFIs, the share of funds in the Finnfund investment strategy and portfolio are modest. For example in Swedfund's portfolio, the proportion of funds of the total contracted amount was almost half (45.5%) in 2019. Of the CDC's (the British bilateral DFI) portfolio intermediated equity (mostly funds) composed 41% in 2019. In its current strategy Norfund plans to increase fund investments.

Finnfund's fund investments in the three case countries:

Finnfund has made only two investments during 2016–2019 in private equity funds that invest in the 3 case countries (among others):

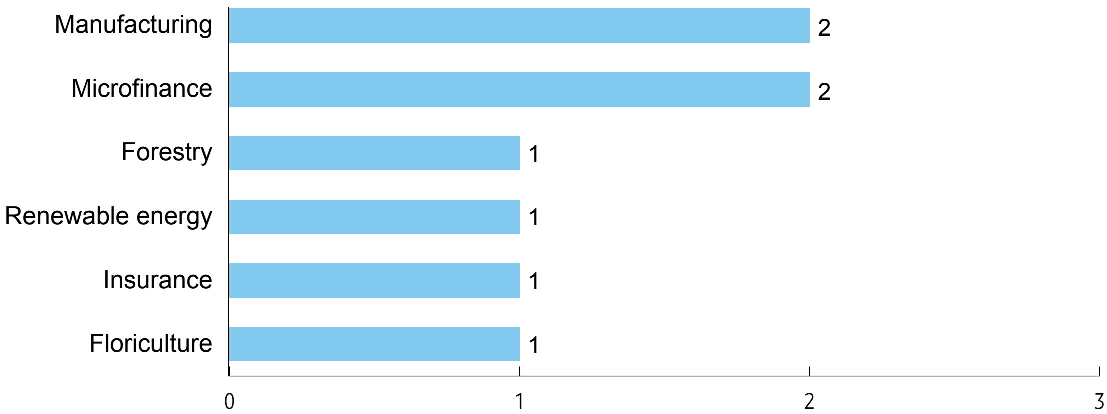
- AgriVie II (food & agribusiness); US$10 million. Finnfund investment in 2018;
- Evolution II (renewable energy); US$15 million. Finnfund investment in 2017.

AgriVie II invests in Africa generally AND Evolution II in sub-Saharan Africa.

Of the current active Finnfund PEF investment portfolio Sambia's share is 3.5%, Kenya's 5.4% and Tanzania's 7.1%. Most of these investments, however, have been made through funds in which Finnfund has invested already years ago. The value in the Finnfund balance sheet of all PEFs that have made investments in the 3 case countries is 34.3 million euros.

Between 2016–2019 the PEFs in which Finnfund participates made 8 investments in the three case countries with the sector distribution as presented in Figure 5.

Figure 5 New investments through funds in 3 case countries (nr. of investments) 2016–2019[9]



Source: Finnfund

Of these, seven were made in Kenya and one investment in microfinance institution in Tanzania. No new investments were made in Zambia.

Strategy

Finnfund's current strategy[10] covers the period 2018–2025, with some adjustments made to it in the annual reviewing process. It contains a vision of Finnfund for 2025, according to which "*Finnfund will be a valued partner and a frontrunner in impact among European development finance institutions*", and "breakthroughs" to be realized for the to vision to be achieved: "*1. Triple development impact; 2. Ensure responsibility 3. Diversify funding base; and 4. Develop corporate culture.*" [11]

The strategy focuses on high-risk countries and investments, balancing at the same time with self-sustainability and ability to repay to the fund's financiers. Finnfund commits to doubling its operational volume from the 2018 level by 2025 (up to €140 million worth of new investment decisions annually) and triple its impact[12]. It also commits itself to mobilize and manage additional financing from private investor (at instrument, not at investment level). From the perspective of financing development this is an important commitment, since in Finland there has previously been very few structures (e.g. funds), through which private (in practice institutional) investors would have made direct investments in developing markets.[13]

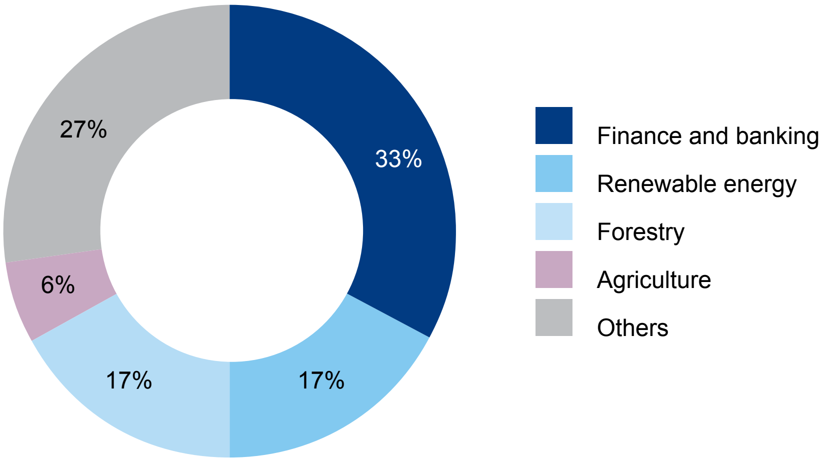
9 There is no CRS classification available for these investments.
10 https://www.Finnfund.fi/wp-content/uploads/2018/10/Finnfund-strategy-2018-2025.pdf
11 There are differences in "breakthroughs" and their definitions, depending on whether they are taken from the strategy document itself, from the company web site.
12 "Tripling impact" has not been defined more in detail.
13 In June 2019 Finnfund and OP, one of the biggest financial groups of Finland established "OP Finnfund Global Impact Fund", the first global impact fund in Finland. The OP Fund Management Company Ltd acts as the manager of the fund. Finnfund prepares the investment proposals for decision. In its first funding round the fund raised €76 million from mainly Finnish investors. The target size of the fund is €100 million.

Finnfund's focus sectors have since 2018 been renewable energy, sustainable forestry, agriculture and financial institutions, but it has financed projects with clear anticipated development effects also in other sectors. In its strategy the fund pledges to direct at least 80 per cent of annual investment decisions in the focus areas.

Share of the focus sectors of the new financing agreements between 2016–2019 is shown in Figure 6. The sector division has been simplified by combining reported items to better illustrate the role of the key sectors. "Financial sector", for example includes e.g. banks, micro finance institutions, Fintech and different kinds of financial services; "Renewable energy" includes e.g. wind, solar and bio power, renewable energy funds and biofuels, etc. The key focus sectors represent more than three quarters of financing agreements in 2016–2019.

It is to be remembered, that some of these investments were made already before the strategy for 2018–2025 was published.

Figure 6 Sector division of new financing agreements between 2016 and 2019 (€)



Source: Finnfund

Agriculture

Project specific features notwithstanding, of the Finnfund's focus sectors especially agriculture and forestry are often considered challenging, both involving various kinds of risks (e.g. operational, political, ESG- and market related risks), and – especially in forestry – long periods of time before investments generate profit.

Finnfund has actively searched for investments in agriculture since 2016. To carve out a position in the sector it has been willing to take elevated risks and invest in greenfield and primary production, thus selecting even more challenging targets for its financing. Of the new financing agreements between 2016–2019, 8% (8/104) were made in agriculture. The corresponding share in monetary terms was 5%. The strategic focus on agriculture will be reviewed in a couple of years, after seeing how successful the investments in the sector have been.

Forestry

In forestry Finnfund has been the forerunner in commercial plantation forestry, especially in the Sub-Saharan Africa. For example, other DFIs have trusted upon its expertise in the field, so its participation has attracted other investors.

Finnfund has been able to draw on and deploy Finnish forestry expertise and its good reputation. Finnish forestry technology however has often appeared to be too sophisticated and high-tech for many African forestry companies that still rely on production models of low capital intensity, and on manual/semi-mechanical processes. Price level of Finnish forestry technology is often too high for African markets.

The share of forestry in the new financing agreements between 2016 and 2019 was 20% (21/104), in monetary terms 16%.

Energy

Energy, especially renewable energy has been a key sector of Finnfund Investments throughout the 2010s. The fund gathered expertise on e.g. wind power investments in Cape Verde and was then influential when the financing was raised for Africa's biggest wind farm Lake Turkana Wind Park (LTWP) in Kenya. Finnfund has also made several investments in hydro power in e.g. Honduras. Of the new financing agreements between 2016–2019 15% (16/104) were in renewable energy, with the correspondent share in monetary terms 25%.

In recent years there has been more capital available also for equity investments for renewable energy projects globally and in Africa. "*Practically all major DFIs and IFIs have nowadays a KPI [Key Performance Indicator] for renewable energy in Africa*" stated one of the interviewees of this evaluation. At the same time there is scarcity of good projects. "*Low-hanging fruits in energy in Africa have already been picked.*" Bottlenecks in energy infrastructure are increasingly experienced not in generation but in transmission and distribution, both of which are considered to fit better to public than to private sector entities to build and operate.

These developments have eroded the relevance of Finnfund's kind of small development financiers that have financed private generation capacity. Finnfund has made relatively few new investments in renewable energy in recent years. It has reacted to challenges by searching leads in new geographies, e.g. West-Africa, in very risky projects and circumstances (Somalia, South-Sudan), and in investments so small that they stay below the radar of larger financiers. The number and monetary value of new energy investments decreased in 2018 and 2019 in relation to 2016 and 2017.

Financial sector

Investments in the financial sector have considerable, both direct (credit lines for loans to e.g. women entrepreneurs) and indirect (strengthening banks' capital base allowing it to expand lending) development effects. Financial sector has the biggest share, 26% (27/104) of the new financing agreements between 2016 and 2019. In monetary terms its position is even stronger, with 33% of the total value of agreements.

Majority (especially in monetary terms) of the new investments in the financial sector are with senior debt instruments. Financial sector clearly provides counterweight for often riskier investments in other sectors. The investments in Monetary Financial Institutions (MFI), on the other hand target often micro enterprises, including female entrepreneurs and family businesses, a considerable part of which operate in informal economy.

General

Finnfund's strategy has been ambitious and well in line with Finnish development policy. But it is not without challenges.

Bankable projects are in scarce supply in sectors, geographies and markets towards which ownership guidance pushes Finnfund. At the same time the fund faces tougher competition in its core competence areas (forestry and renewable energy, equity investments in risky projects and geographies). The fund has tried to tackle these challenges by for example searching its niche in small projects sometimes even in early phases of business development; and in small "ticket" sizes, i.e. in investments in monetary terms so small that larger financiers have no appetite for them. This approach, however, brings with it the challenge of relatively high transaction costs, since all investments regardless of their size have to go through the same, thorough preparation, DD, monitoring and reporting, largely to accommodate with the ownership guidance and its exigencies (regarding responsibility, monitoring, reporting etc.).

In some of its investments Finnfund has come close to a role of a risk-hungry venture capital (VC) investor financing innovative start-ups. But Finnfund does not have a VC/start-up financiers' large portfolio in which most investments fail while some are phenomenally lucrative. Such a business model would also not necessarily fit to the role of a DFI and to the main owner's interests. Finnfund would likely also not have adequate staff, expertise and skills for it.

To cover high transaction costs and risks of markedly development-oriented investments Finnfund needs stable, reliable cash flow from other parts of its portfolio. Additionality and added value of such investments, often in big projects with larger development financiers, and using senior debt instruments with more secured position, however, is not self-evident.

It is not quite clear, how well this two-laned strategy – a spearhead of risky, development-oriented projects funded by larger bulk of lower risk financing – and its relation with the requirement of ownership steering is recognized and endorsed by the MFA.

Achieving the ROE targets if focusing on small investments burdened by high transaction costs would not be easy. The problem could be solved by erasing the ROE target (or "*reviewing*" the profitability criterion, like suggested in the 2018 evaluation on Finnfund). To push the return targets very low could, however affect Finnfund's position and reputation as a financing institution and change its role vis-à-vis other DFIs.

The increased transaction costs per €1 invested could be combined with the ROE target by increasing debt's share of Finnfund's refinancing. If, however new lending would come from financial market instead of from MFA, the interest of lenders might not align with the development focused interests of the MFA.

Ownership guidance and RBM

The main governing bodies of Finnfund are the Annual general meeting, supervisory board and board of directors. Responsibility of steering Finnfund on behalf of shareholders lays with the MFA. The board of directors is responsible for Finnfund's strategy. Responsibility of management lies with the Managing Director.

Government guidance is executed through annual OSM from the MFA. These memoranda include the overall policy objectives set for Finnfund, together with their targets. They add to what Finnfund Act and more general government ownership policy expect from the company, and tie Finnfund operations to the current development policy priorities.

The 2016-2019 OSM contained two sets of goals: the development policy-oriented ones and ones on managing and developing Finnfund itself.

The development policy-related goals included e.g. number of jobs in the financed companies, number of farmers benefitting from Finnfund financing, taxes and other payments to public sector, share of LIC and LMICs of the new investment decisions, sector division of new investments (e.g. target share for renewable energy), additionality of financing (share of equity and high-risk rated loans) avoided CO2, generated energy, and objectives related to Finnfund itself, like inclusion of Human Rights assessment in the investment process, ROE and equity ratio.

There have been some changes in the OSM goals during the period to evaluated so that a) the number of goals with pre-set targets has decreased and b) the overall number of the goals has decreased. The set of OSM goals have been streamlined. This is especially visible in the OSM for 2020: whereas the number of goals in the OSM of 2016–2019 was 14 (with 5 of them having numerical targets), the number of goals in the 2020 OSM is 10 (the nr. of numerical target remaining the same).

This simplification was recommended in the evaluation of Finnfund in 2018. It is justified. In many cases (especially e.g. in forestry and infra projects) the time needed for the whole investment cycle (from origination of projects and preparation of them for investments decisions, to implementation and exit) are so long that government policy priorities may change many times in between. Investment periods in e.g. forestry can easily be 20 years and over. Government steering should therefore be kept simple and as constant as possible.[14]

Finnfund has no specific strategies or KPIs for individual countries in OSM or in its own strategy. There has, however been a KPI in the OSM since 2016 on the share of LIC and LMIC countries of the new investment decisions. (75% of the value of the new investment decisions).

Finnfund has normally mostly achieved the annual OSM targets (with some exceptions). With some of the goals there has been a change of targets from covering annual performance to covering multi-year rolling average.

The MFA's power to guide Finnfund operations is limited e.g. by its status as a limited liability company, and related legislation, that defines the roles and powers of e.g. governing bodies. Due to Finnfund's operational model of financing part of its operations from capital markets, the fund also has to balance development policy interests with the interest of its lenders.

Notwithstanding the above limitations of MFA power to steer Finnfund, the fund and the ministry have good cooperation and discussion channels also outside the formal governance structure. The management of Finnfund for example sometimes discusses with the ministry of the potentially sensitive investments before considering bringing them to the board.

The evaluation of Finnfund in 2018 found that the fund is "*broadly consistent with annual (government) guidance*".

RBM

Finnfund reports extensively on development effects (see below 3.1.) of its operations, as well as on the realization of the OSM goals. It was required to start reporting against PA2 indicators in the 2020 OSM. The 2020 OSM stated that Finnfund's operations promote especially PA 2 implementation in that it creates jobs, livelihoods and well-being. In addition, one of its goals is strengthening of women's and girls' position. Finnfund should promote also the implementation of other priority areas.

With some exceptions (nr. of jobs and companies that have received finance) there is fairly weak connection between development effects assessed, monitored and reported by Finnfund during 2016–2019, and the outputs, outcomes and indicators included in the PA 2 ToC of 2020.

Policies and tools

Development effects and their assessment

Finnfund aims to generate positive development effects by its investments by e.g. correcting market failures. It also pursues to mobilise private capital for development. The fund reports e.g. in its annual reports the following development effects (Annual Review 2019).

14 As a reference: The ownership steering (for example KPIs) for the Danish bilateral DFI IFU and Norwegian Norfund is mainly given through company statutes, which naturally are not changed very often. The Swiss DFI SIFEM get strategic objectives from the Swill Federal Council normally for four-year periods.

- Jobs, total
- Jobs, women %
- Jobs in fund portfolio companies
- Jobs in fund portfolio
- companies, women %
- Taxes, all (€ million)
- Domestic purchases (€ million)
- Smallholders, total
- Smallholders, women %
- Energy generated (GWh)
- Microloans, number
- Microloans (number), women %
- Microloans, rural %
- Microloans, € million
- Microloans (€), women %
- Microloans, average size
- SME loans, number
- SME loans (number), women %
- SME loans (number), rural %
- SME loans, € million
- SME loans (€), women %
- SME loans, average size (€)
- Agricultural loans, number
- Agricultural loans (number), women %
- Agricultural loans, € million
- Agricultural loans, average size
- Housing loans, number
- Housing loans (number), women %
- Housing loans, € million
- Housing loans, average
- Mobile loans, number
- Mobile loans (number), women %
- Mobile loans (number), rural %
- Mobile loans, € million
- Mobile loans (€), women %
- Mobile loans, average size, €
- Climate effect: Carbon Footprint of investments (tCO2e)
- Climate effect: Avoided emissions (tCO2e)
- Climate effect: Carbon Dioxide sequestration (tCO2e)

Data for indicators comes from investee companies. They are checked and worked further (by e.g. CO2 calculation tool) at Finnfund. Some investment specific data and/or ex ante estimations is published when the financing agreement is disclosed. Data is then aggregated and published on portfolio level. Finnfund publishes fairly little country-specific development effect data (taxes as an exception). This would be technically feasible but would necessarily not add very much value in reporting.

Since Finnfund always is only one of the sources of finance, attribution of investments' effects to Finnfund financing is not pursued. Effects are mostly assessed on the investment level, not on an individual financier's level.

First development effect assessment is made early in the financing process, together with defining the ToC (the way the investment is seen to bring about effects) and choosing indicators and baseline data. Development effect assessment (DEAT score) is then taken into consideration in deciding on investments.

Finnfund has, alone or with other DFIs commissioned some evaluations and studies on e.g. socio-economic effects of an individual investments or of financing a specific sector. (For example on the Lake Turkana Wind Power; on Finnfund's investments in renewable energy in Honduras; the indirect effects of renewable energy investments; and the market effects of forestry investments).

Sector specific ToCs have been a clear Finnfund niche, when compared to other DFIs. Finnfund has contributed to the common acceptance by EDFI institutions of the need for ToCs, and it has perhaps most consistently used them in assessing, setting baselines, monitoring and reporting the development effects. For example the Overseas Development Institute (ODI) has used Finnfund use of ToCs as a benchmark.

Another clear niche of Finnfund is integration of development assessment and monitoring to its financing process. Ex-ante assessments and monitoring of development effects really affects selection and management of investments. Finnfund was one of the first DFIs, or impact investors generally, to subscribe to IFC impact investment operational principles.

Finnfund collects data from investees through its extranet to which clients have access. Very few DFIs use of such a system.

Table 4 presents some quantitative indicator values for development effects relevant for this evaluation. Figures are taken from Finnfund annual reports. It is to be noted that a) the figures of any year do not reflect the effects of investments agreed or made in that year b) the figures describe the investment as a whole, not just Finnfund's part of it c) the figures on 2019 have not yet been published.

Table 6 Selected development effects of Finnfund investments

Selected development effects of Finnfund investments	2016	2017	2018
Jobs total, number*	105,000	128,000	160,000
% Women	31	32	33
Taxes, € (million)	340	424	491
Energy Genarated (GWh)	6,500	6,400	6,500
Small holders benefitted	38,000	2,036,000	2,248,000
% Women	n.a.	78	88
Microloans, € (million)	1.821	3.132	2.576
% Women	n.a.	n.a.	59
SME loans, number	457,000	118,000	149,000
% Women	41	54	43
Agricultural loans, number	n.a.	790,000	1,124,000
% Women	n.a.	84	92
Carbon Footprint of investments (tCO2e)	127,000	76,000	86,000
Avoided emissions (tCO2e)	64,000	38,000	43,000
Carbon Dioxide sequestration (tCO2e)	530,000	517,000	n.a.

**) Includes all reported jobs, i.e. through direct investments, funds and intermediaries.*

Source: Finnfund

The evaluation of Finnfund in 2018 found there is "*evidence of job creation on the part of investees, as well as improved business performance. Findings on taxation are inconclusive. Finnfund's country and sector allocations also suggest that impacts are being achieved, if not always captured…*"

The Interviews carried out during this evaluation e.g. among some Finnfund investees provided evidence of financial and qualitative additionality of Finnfund. According to the interviewees Finnfund had taken risks and provided the kind of finance (terms, instruments) which other financiers had been reluctant to commit to.

ESG and risk analysis, including tax, gender and human rights

According to the Finnfund strategy "*…companies financed by Finnfund must commit to the responsibility principles of the international development finance sector, including those of the IFC (International Finance Corporation) of the World Bank Group.*" Each potential investment is classified according to its environmental and social risk already at the early phase of investment cycle, and the higher the risks and expected environmental and social impacts are, the more stringent the requirements get. If needed, clients commit themselves to an Environmental and social Action plan (ESAP), that guides tackling the identified risks and potential deficiencies.

Financing agreements contain clauses that condition financing with the compliance with such requirements.

In addition to providing finance, Finnfund advises companies on how to manage their impact on the environment and society.

Human rights statement (2019)

According to Finnfund's strategy the fund "*will not fund businesses or projects which have committed human rights violations that cannot be prevented or corrected.*"

In Finnfund's human rights statement (2019) it is said that the fund "*endeavours to actively and continuously identify, avoid, mitigate and manage potential and actual adverse human right impacts related to its transactions, and take actions to address them using the UN Guiding Principles for Business and Human Rights (UNGPs) as a practical framework.*"

Simultaneously it is reminded in the statement that the financed companies, when operating reasonably, "*can have a direct or indirect positive impact on human rights, such as on decent work, gender equality, freedom of association, through their own operations; as an employer, a corporate citizen and as a neighbour for local communities.*"

The OSM obligate Finnfund to comply with the MFA 2015 guidance on Human Rights Based Approach (HRBA) (Human Rights Based Approach in Finland's Development Cooperation. Guidance note, 2015).

Finnfund screens human rights risk and carries out human right due diligence for all potential investments at the beginning of the investment process using specific tools, developed together with an expert organisation (SHIFT). Findings of the human rights assessment are incorporated in investment decision making, financing agreements, monitoring and management of investments.

WEE/Gender

Finnfund's Gender statement (March 2019) is a part of its Policy of Environmental and Social responsibility (replaced in 2020 by the new Sustainability Policy) According to the statement Finnfund acknowledges the impact of its operations on women's position as entrepreneurs, in working life, in leadership roles and as community members. The fund also assesses the financed services and products on the basis of how beneficial they are especially for women.

Each potential investment is assessed from the point of view of gender equality. Projects are being analyzed and classified according to international practices, such as the OECD three-point scoring system gender marker and the 2X Challenge indicators. A more specific gender assessment is then applied if 2X criteria are fulfilled. An adequate context analysis is important to understand gender aspects. Finnfund prepared a template for context analysis already before 2X Challenge participation.

Increasing the number of women in leadership is supported in the investee companies. Finnfund pursues to collect and monitor gender disaggregated data whenever possible.

Finnfund has committed to invest 50% of the €210 million loan given by the MFA in 2019 in women's empowerment. (The other half is to go in climate action investments.)

Climate

Finnfund calculates and reports the carbon footprint, avoided emissions (tCO2e) and carbon dioxide sequestration (all in tCO2e) of its investments. Figures are reported at portfolio level, in some cases also on investment level.

Climate change and CO_2 emissions/mitigation (together with e.g. employment effects, gender and inequality) are areas in which international harmonization of impact assessment and reporting is proceeding fast, main actors in this development work being The Global Impact Investing Network GIIN and Harmonised Indicators for Private Sector Operations (HIPSO). EDFIs, including Finnfund are participating in the work. An international steering group (SG) has been established, in which IFC, CDC, the Dutch entrepreneurial development bank (FMO) and EDFI are members. EDFI is working also on their own harmonisation initiatives. They have for example commissioned an impact study on economic value added, indirect and avoided CO_2 emissions. Work on assessing sequestration effects is about to begin, in which Finnfund (thanks to its expertise on forestry) will participate.

Tax responsibility

Finnfund is exempt from income tax under the Act on Income Tax (1535/1992). It does not pay taxes to the Finnish State. It is guided by the previous (2016) and new Tax for Development Action Programme (2020) and the forthcoming MFA internal guidance on tax issues at PSIs.

The fund has committed to the goals of the OECD's Base Erosion and Profit Shifting (BEPS) project that aims to eliminate profit shifting which erodes tax base, and non-taxation due to asymmetry of tax regimes.

The fund has published a specific Tax policy, which was reviewed in 2019. According to the policy Finnfund is committed e.g. to:

- Finance only projects/companies, the corporate, financing and ownership structures of which are made known to Finnfund
- Always investigate the ownership structure of the projects. The corporate structure of the project company and its company group have to be transparent to the tax authorities of the relevant countries.
- Investigate the background of the co-investors and the ultimate beneficiaries.
- Publish annually and on country-by-country basis the amount of taxes and fees in aggregate that the companies it finances pay to government
- Not to support aggressive tax planning, which prevents the accumulation of tax revenue from profitable business activities in developing countries. (Finnfund follows the 12March 2014 government policy on aggressive tax planning.)
- Evaluate before an investment decision, and monitor during the project, whether the project company's result, and the taxes paid to the developing country, are artificially reduced.
- Not to accept the use of holding company structures, if their only objective is to exploit asymmetry of taxation.

Finnfund can only invest through holding companies and funds registered in countries that comply with the progressively tightening standards of OECD's Global Forum on Transparency and Exchange of Information for Tax Purposes. The fund also cannot invest via holding companies registered in countries listed in the list of non-cooperative jurisdictions published by the Council of the European Union (EU) on 5 December 2017.

Finnfund implements its tax policy by using three specific tools: responsible taxation-related investment criteria; tax-related agreement terms and conditions; and monitoring the investee companies.

A specific tax responsibility assessment made for all investment proposals is discussed in the board. One of the current board members (from the Ministry of Finance) is also a renown expert on international taxation.

In 2019 Finnfund paid a total of €17,400 in taxes in its operating countries. The figure comprises of taxes paid at source on work compensation and on dividends. In 2018 the corresponding figure was €15,000.

In 2018 the Finnfund portfolio companies paid a total of €490 million in their respective countries in taxes and tax-like fees (subsidies from the government has been deducted from the figures). 53% of these taxes were paid in African countries. In Kenya the figure was €10 million, in Tanzania €24 million and in Zambia €3 million.

Partly due to the confidentiality of information no investment specific tax data is reported. It is also to be noted that there is no attribution of the taxes paid by the investees to the Finnfund's share of financing. This has caused criticism among some civil society organisations.

The evaluation of Finnfund in in 2018 concluded that: "*Finnfund was broadly consistent with annual guidance and best practice in both commercial and environmental/social risk management, and often exceeded these…*"

Finnfund in relation to other PSIs

Interaction with other forms of development cooperation and other PSIs

There are very few links (with Tanzania as an exception) of Finnfund operations to MFA bilateral programmes and embassy activities. Finnfund is a demand and market driven (see 1.1.) instrument, the demand coming from companies in need of finance.

Though Finnish embassies are very active in promoting private sector cooperation and investments in their host countries, supporting origination or feeding projects to the Finnfund pipeline requires expertise seldom available at the MFA or embassies. Consequently, there are very few projects in the Finnfund portfolio that would have somehow originated in cooperation with the MFA or embassies.

Embassies may, however have a role in opening doors and providing platforms (e.g. different kinds of events) in which a financier like Finnfund can meet potential investee companies. A good example of this is Yalelo in Zambia. Finnfund first met with Yalelo in an event organized by the Finnish Embassy in Zambia. At that time the financing needs of Yalelo and the offering of Finnfund did not match. When Yalelo some years later needed financing for its expansion investment, the contact established earlier led to a financing agreement.

There are also fairly few links between Finnfund and other PSIs. Finnfund's eligibility requirement of bankability or near-bankability makes it difficult for other PSIs to feed projects in Finnfund pipeline. Despite Finnfund managing Finnpartnership, there is practically no connection between the two in the sense that Finnpartnership would be able to supply companies into Finnfund pipeline. The nature, maturity, but especially the size of client companies/investments, and of required support/financing differ too much from each other. BEAM projects, on the other hand, normally target businesses/technologies/innovations in much more earlier stages (research and development and/or proof of concept) of the innovation cycle than what Finnfund wishes of potential investments.

There is one potential co-investment in the FIBFC (Finland IFC Blended Finance for Climate programme) and Finnfund pipelines.

In case the Nordic Development Fund (NDF) managed EEP Africa succeeds with its pilot Catalyst fund and manages to support promising new companies through early stages of development towards scaling up their businesses with concessional loans, there may emerge a link to Finnfund financing. Even then, the issue of scale remains.

The responsibility and development effectiveness exigencies set by the MFA, with the correspondent implementation costs, combined with the profitability requirement direct Finnfund towards larger investments. The Fund seldom takes stakes smaller than €1 million. This, on the other hand makes it a challenging partner for other PSIs.

Unlike many other DFIs Finnfund does not have project development, ESG/DE enhancement or other TA funds available, that would enable it to move upstream in business development and support projects in achieving financiability.

(Similarly, it does not have funds to support potential projects or its portfolio companies in improving their responsibility or to strengthen the positive effects of their operations.)

Feedback from financed companies

Approach and methodology: A small sample of Finnfund investee companies was selected for more thorough document analysis and interviews. The sample included:

- Fuzu and Elgon Road Developments Limited in Kenya
- Kilombero Valley Teak Company (KVTC) and Africado Ltd in Tanzania
- Yalelo in Zambia

Semi-structured interviews were carried out with the sample companies and the responsible investment manager at Finnfund (in case of Elgon Road only the Finnfund investment manager was interviewed).

The questions were partly open ended, allowing space for interviewees to bring forth issues they considered relevant.

Key take away from interviews:

"Finnfund investment was welcome and needed. After the investment their support for business development could have been better. They supposedly have a large network of investors, clients etc. that they could use to help their investees, but very little has happened on that front."

"Finnfund should have local presence, an office, a branch or similar. It would help them understand local markets and circumstances better."

"Our agreement with Finnfund included 21 different kinds of ESG-related requests all of which we fulfilled. It helped that we had already been implementing some of these conditional requests (including issues pertaining to climate, taxation and gender)."

"At the end of the day Finnfund is PE [private equity] investor that tries to avoid risks. They typically finance mature businesses. They have financed a couple of start-ups but do not necessarily have a team with adequate skills for that. Their instruments and processes are pretty heavy and bureaucratic for start-ups. This applies to all DFIs"

"Generally there is a gap in financing for investments between €200,000 to €5 million in Africa. This does not apply to hot sectors like fintech, but is a fact in many others, and especially when the market is yet unproven."

"Finnfund offered to help us in in complying with the requirements, local legislation, policies and regulations and / or international best practices in these ESG issues, but we did no need it. We had sufficient internal capabilities and abilities."

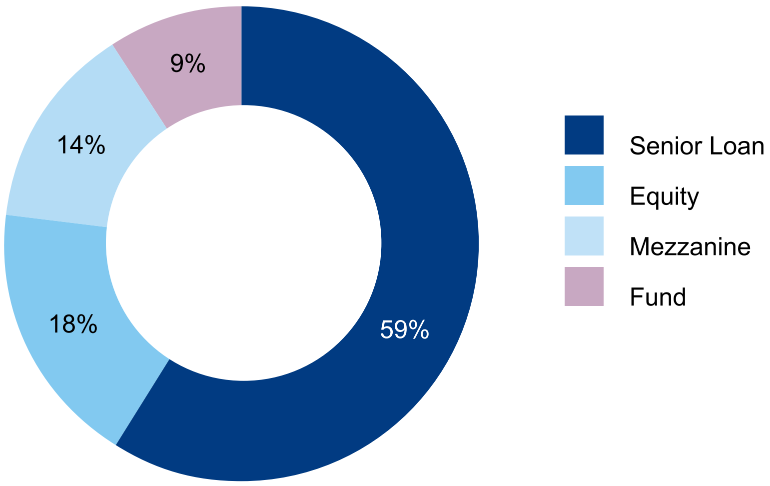
"We operate in challenging markets. Raising new capital after and in addition to Finnfund financing is not easy. They should have more resources to support their investee companies in this."

"We ended up making a financing arrangement with Finnfund, because the company needed a "unique type of finance". The particular type of investment was very risky. Finnfund was willing to take up that risk. Not so many investors on the market are willing to take up that kind of investment risk, but Finnfund was willing and flexible enough to do it. "

Finnfund investment agreements between 2016–2019

The instrument division of Finnfund's new financing agreements between 2016–2019 is shown below. The relatively lower risk debt instruments account for the major part (in monetary terms 73%) of the new agreements. This is shown in Figure 7.

Figure 7 Instrument division of new financing agreements 2016–2019 (€)

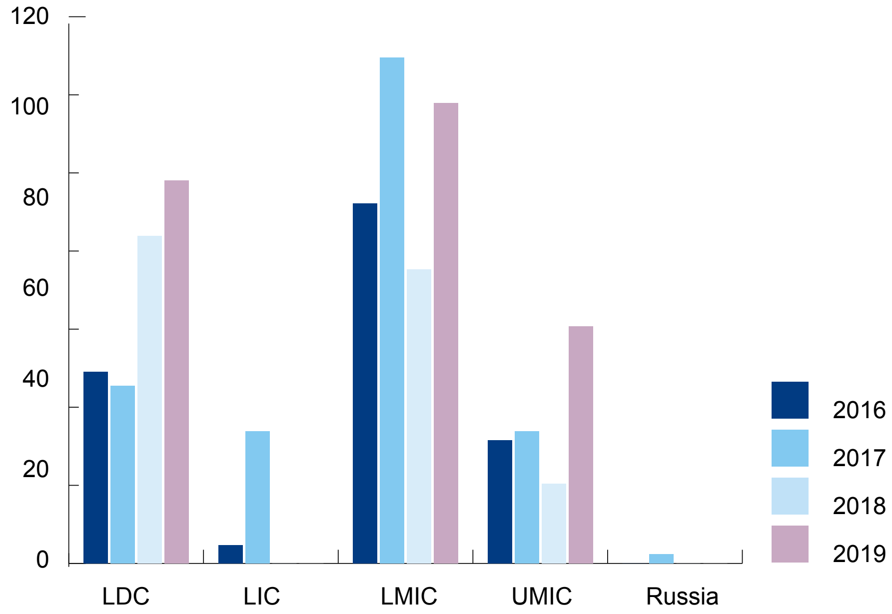


Source: Finnfund

As shown before (see Figure 6) a major share (in monetary terms) of investments was made in financial sector. As shown in Figure 8, Finnfund's operational priority areas are poor countries. Minimum of 75% of the new investments total value has to go to LIC and LMIC countries[15]. This target has been achieved each year, with the share being 78% in 2019. Largest part (in monetary terms) of the new investments during 2016–2019 has been made in LMIC countries (47%), with LDC coming next (31%) and UMIC third (17%).

15 MFA OSM 2016–2020

Figure 8 Annual investment decisions 2016–2019 by DAC groups



Source: Finnfund annual reports 2016–2019.

The share of LDC countries has grown.Africa's share (both in terms of number and value of new investments) was 35% in 2019. Of the "wide portfolio" (portfolio +undisbursed investment decisions + commitments) 44% was in Africa at the end of 2019. Finnfund has stronger emphasis in Africa, LIC and LMICs than most other European DFIs.

The smallest actual stand-alone investment (i.e. no other investments in the same company) was appr. €0.5 million. The biggest one was €20 million. The average size was approximately €6 million.

PSI Appendix 2: Finland – IFC Blended Finance for Climate (FIBFC)

Presentation of the instrument

Finland – IFC Blended Finance for Climate programme (from now on "FIBFC") is one of the "Development policy investments" that the MFA has made during the last years[16]. These investments constitute a relatively new way for the Ministry to finance development, the main difference to conventional development aid being, that the allocated funds are expected to be returned with a yield revenue in the long run. Without adequate return expectation the development policy investments could not be reported as investments in e.g. state budget and statistics.

Investments are made in the form of loans or capital investments, through e.g. multi-lateral development banks, UN organisations' thematic funds or DFIs. By channelling funds through such organisations, the MFA tries to draw on their knowledge of markets and local conditions. Final recipients of financing are often private sector entities, though development policy investments are not limited only to private sector support.

FIBFC is for the MFA a fund investment – in a trust fund of which Finland owns 100% and which is managed by IFC. The investment is made for and the fund's duration is 25 years, the first five of which constitute the investment period. The size of the investment is €114 million, paid in two tranches. Reflows are returned to Finland annually.

Finland is one of the first (and first in Europe) bilateral partners for IFC in blended climate financing. Previously IFC had a such a structure with Canada (*IFC-Canada Climate Change Program*) and corresponding structure in other sectors with, for example, the United Kingdom.

IFC is responsible for investment decisions of the Fund. The whole investment cycle from the identification of projects in the partner countries to exit happens as a part of the IFC's general activities and investment process.

IFC participates in negotiations of World Bank group on country strategies with the respective countries. IFC also defines its own country specific strategies in cooperation with the corresponding governments. It has local economists in its country teams to ensure that strategies and separate investment decisions are in line with the countries' own priorities and strategies. IFC's process of development effects assessment and measurement normally starts with country and sector diagnostics and identification of priorities as well as potential projects.

Operational logic

IFC uses blended finance to support high impact but risky projects in sectors that have difficulties in attracting commercial finance. The projects and sector are expected to have potential for commercial viability over time.

16 For example loans to Finnfund and FCA Investments also belong to this group of instruments.

Funds provided by Finland are co-invested as loans, guarantees and equity with concessional terms, alongside IFC's own resources.

In large infrastructure projects in e.g. renewable energy financing normally comes from several sources and it is engineered into a structure that matches financiers' varying risk appetite and return expectations. Risk averse investors, for example many institutional investors (pension or mutual funds, insurance companies and similar) content with lower return, but require participation by someone that can provide a buffer against most serious and/or probable risks.

Funds provided by Finland fit to this purpose well. They have very low return expectation (just enough for them to be classified as investments), and they are – due to the fund structure – separate from the IFC's own funds. With them the IFC can "… *catalyze climate investments that would not otherwise happen, and are meant to address market barriers that prevent wide scale adoption of private sector investments in climate… when fully commercial solutions are not yet possible because the risks are considered too high, or the returns are either unproven or not commensurate with the level of risk*."[17]

The use of Finnish funds is in line with the IFC's corporate strategy ("IFC 3.0). IFC sees access to such concessional finance important for testing, improving, and demonstrating the financial viability of climate-friendly investments.

Eligibility for support

FIBFC invests globally in LDCs, LICs ja LMICs. It can also invest in UMICs with the MFA's consent. All projects must be able to show positive and verifiable expected development impacts, and they have to be commercially sustainable. IFC's current average project size is appr. US$100 million. Finnish funding thus constitutes clearly a minor part of each investment.

Priority sectors for climate change mitigation projects are renewable energy, energy efficiency in buildings, agriculture, forestry and land use, water and wastewater. For climate change adaptation they are: meteorology, water and sanitation, food security and sustainable forestry.

Ownership guidance and RBM

FIBFC is well aligned with the Finnish and the MFA's policy goals to mobilize and leverage especially private finance for development, and for climate change mitigation and adaptation. Because the Finnish funding made available for FIBFC investments has very low return rate expectations, and is meant to cover most risky elements in financing structures, it is plausible that it serves this function efficiently.

When it comes to RBM. the MFA's control on the use of its contribution can in principle happen on three main levels/through three main channels:

1. Finland, like all World Bank member countries has one Governor and one Alternate Governor in the Bank's Board of Governors. The Minister of Finance has traditionally held the Finnish Governor's position with the Minister for Development Cooperation acting as Alternate Governor. The World Bank Governors and Alternate Governors serve ex-officio also as the Governor and Alternate on **the IFC Board of Governors**.
2. The World Bank Board of Directors consists of representatives of member countries or constituency groups of member countries. They serve also ex-officio as members of the **IFC Board of Directors**. Of the 25 Directors 19 represent a constituency of countries. Finland belongs to the constituency of Nordic and Baltic countries in which Director and Alternate Director positions rotate as stipulated by the constituency agreement.

17 Finland-IFC Blended Finance for Climate Program, on the MFA web site.

3. **The agreement** between Finland and the IFC defines the objectives of the programme and sets the financial and legal terms of Finlands's contribution. It regulates e.g. the sector focus and the geographics in which the programme can invest. It also determines the instruments to be used in investments.

Quite naturally, neither IFC Board of Governors, nor even Board of Directors are the most adequate and effective forums to practise ownership steering at FIBFC. The Board of Governors for example admits and suspends members and decides on the increase or decrease of the corporation's capital. The Board of Directors decides on strategic and policy issues and approves/rejects investment proposals submitted to it by the management. The key instrument to steer and influence on FIBFC therefore is the agreement that Finland and the IFC signed in 2017. The programme document of FIBFC, attached to the agreement, stipulates for example the fund's operations principles, the eligible countries /geographies and sectors, and determines the instruments the IFC can use when allocating the fund's financial resources to its investments.

Between signing the agreement and participating in the board meetings approving or rejecting the staff's investment proposals there are fairly few opportunities for the MFA to influence on the use of funds. FIBFC investments follow normal IFC policies, are during the investment cycle identified and taken into the pipeline using standard IFC selection criteria, and are decided as well as managed following standard IFC procedures.

Since IFC in FIBFC and similar structures blends member countries' (like Finland) funds with its own resources, the integrity of the fund management has been given considerable attention. The MFA commissioned an external audit on the FIBFC and IFC[18]. IFC has also established a governance structure in which dedicated teams work with the concessional contribution resources separately but parallelly to the IFC's core investments teams. Decision making on the use of concessional funds in the financing packages is thus delegated to a separate body, the Blended Finance Committee. FIBFC's day-to-day management, including the selection of Program projects, structuring and supervising the Program investments, and reporting to the MFA is on the responsibility of a separate Blended finance department. The management of FIBFC is thus at least to a certain extent ring-fenced from the use of IFC's own funds.

IFC submits quarterly financial reports and annual report to the MFA.

Even with these arrangements, the governance of FIBFC thus rests on a certain amount of trust by the MFA on the quality and integrity of IFC processes. Finland as a small country and contributor to IFC's capital and financial resources does not have very much leverage on the use of funds after disbursing them. It is not in the interests of IFC to make stand-alone arrangements for such fund. When compared to e.g. MFA ownership guidance in Finnfund, or Finnfund's ability to exercise influence private equity funds it invests in (e.g. advisory boards etc.), the clout and influence of the MFA on FIBFC through the fund's governance structure is modest.

In such a constellation it has been important that a good day-to-day working relationship has been established between the MFA and IFC. The IFC staff responsible for the programme have frequent contacts with the responsible unit at the MFA. The operations officer for FIBFC at IFC is Finnish. Essential information for the fund's management is exchanged regularly, and the MFA is always consulted, if there is a project entering IFC pipeline that could somehow be considered sensitive or not totally in alignment with Finnish development policy goals. Such informal communication channels support the MFA in following and guiding the use of FIBFC financial resources, though they do not totally compensate for the arrangement's shortcomings from the MFA's RBM point of view.

18 As a part of a wider audit on development policy investments.

In the MFA internal statistics FIBFC is rated as having the PA 2 as its principal and PA 4 as its secondary objective. The unit responsible for its management at the MFA disagreed with the classification and saw PA 4 to be the factual point of emphasis of the fund.

Policies and tools

Development effects and their assessment

Until 2019, IFC used its Development Outcome Tracking System (DOTS) to assess measure the development effects of its projects. DOTS was taken in use in 2005 and contained a large numbers of both qualitative and quantitative indicators, of which relevant were chosen for each project, after which baselines and targets for the indicators were defined. Each assessed investment also was given a DOTS score depending on the assessment results.

In 2019, IFC developed the system further by introducing a software called 'Anticipated Impact Measurement and Monitoring System' (AIMM). DOTS was integrated to the AIMM. The AIMM allows project assessment and scoring to be more tightly linked to project and portfolio supervision during the implementation, and to ex-post evaluations. Being based on sector specific frameworks, the AIMM also enhances IFC's capacity of analysing the effects of its investments on relevant markets.

Since average IFC investments are large in comparison to e.g. many bilateral development financiers' projects, they can bear the costs of relatively thorough and heavy development effects and ESG risk assessment, due diligence and monitoring processes. The IFC effects/impacts measurement and tracking system has in the development finance constituencies often been regarded as a kind of benchmark, for development effects assessment and monitoring tools.

All the investments under the FIBFC report on measurable development impacts such as reduction in greenhouse-gas emissions, generation of renewable energy, increasing access to services, and job creation, among others. These indicators form part of the IFC impact measurement framework.

In April 2019 the IFC launched the "Operational Principles for Impact Management" and offered investors a opportunity to sign them.

The nine principles bind signatories to:

1. Define strategic impact objective(s), consistent with the investment strategy
2. Manage strategic impact on a portfolio basis
3. Establish the Manager's contribution to the achievement of impact
4. Assess the expected impact of each investment, based on a systematic approach
5. Assess, address, monitor, and manage potential negative impacts of each investment
6. Monitor the progress of each investment in achieving impact against expectations and respond appropriately
7. Conduct exits considering the effect on sustained impact
8. Review, document, and improve decisions and processes based on the achievement of impact and lessons learned
9. Publicly disclose alignment with the Principles and provide regular independent verification13 of the alignment

"Principles" aim to make sure that impact promise made by financiers is not just a marketing concept, but that impact investors actually commit to pursuing impact consistently throughout their investment cycle. They set a challenging standard, to which many e.g. commercial impact investors have struggled to commit themselves.

ESG and risk analysis, including tax, gender and human rights

IFC Performance Standards on environmental and Social Sustainability ("The IFC PS") is a key piece of the IFC Sustainability framework. All investee companies are screened using the performance standards and have to commit to comply with them.

The IFC PS is the current best practice of responsibility standards in development finance, compliance with which is a prerequisite for e.g. PIF and Finnfund financing. IFC has reviewed the performance standards framework periodically (last revision in 2012), trying to accommodate with the intensified discussion on the responsibility of investors, for example vis-à-vis human rights risks. All stakeholders have, however, not been content with the outcomes.

The IFC PS include the following eight standards and guidance for their use:

1. Assessment and Management of Environmental and Social Risks and Impacts
2. Labor and Working Conditions
3. Resource Efficiency and Pollution Prevention
4. Community Health, Safety, and Security
5. Land Acquisition and Involuntary Resettlement
6. Biodiversity Conservation and Sustainable Management of Living Natural Resources Performance Standard
7. Indigenous Peoples
8. Cultural Heritage

Regarding **gender**, the presentation of the FIBFC at the MFA web pages states that" Taking into account the integration of gender equality in the Paris Agreement, the Finland-IFC Blended Finance for Climate Program will, as appropriate, take a **gender**-responsive approach to promote mitigation or adaptation." What this means in practice, or how it is monitored, is not defined. IFC has so far (9/2020) not signed the "2X Challenge – Financing for Women" that aims to increase access to finance for women-owned, women-led and women-supporting enterprises.

Regarding **taxation** of its investees, IFC follows World Bank policies regarding e.g. the use of OFCs in its investments. "The IFC Policy Use of Offshore Financial Centers in World Bank Group Private Sector Operations", was up-dated in 2016. The IFC, like many DFIs has faced criticism of its use of OFC from the part of NGOs and Civil Society Organisations (CSOs).

Gender/WEE, taxation and human rights issues are prime examples on how difficult it is for a small country like Finland to get its views pushed through the governance structure of a large multilateral organisation. To get any reforms through needs support from other, especially large member countries and constituencies, which is by no means granted[19]. The scale of IFC investments on the other hand means that its co-financiers are often large operators in the financial markets, with views not necessarily in line with the Finnish development policy goals. IFC is often reluctant to adjust its policies and procedures to match one member-country's aspirations – even if it were a large one, which Finland naturally is not.

Consequently, the power of the MFA to push its policies through in IFC is modest. When for example the responsibilities of PSIs in the context of the new Finnish "Tax for Development Action Programme" will be defined, the MFA cannot direct and steer FIBFC with a similar leverage and influence it has on the other PSIs.

19 Voting power in the IFC Board of Governors and Board of Directors is allocated according to the country's share of the IFC capital stock. Finland thus has got 0.61% of the total IFC votes, and the Nordic – Baltic constituency 3.35% of the votes.

Finland – IFC Blended Finance for Climate programme in relation to other PSIs

There is an element of "*Collaboration and Business Development Opportunities for Finnish Companies*" in FIBFC. In practice it has meant providing information to Finnish companies and other stakeholders about the opportunities created by FIBFC and IFC financed projects generally, and trying to find possible matches between the projects needs and companies' offerings. IFC has participated in various events organised by e.g. the MFA for this purpose.

In practice the results have been meagre. There is an MOU (Memorandum of Understanding) with one Finnish company, and a potential co-investment with Finnfund in the FIBFC pipeline.

The most important reasons (pointed out in practically all interviews for these issues during the evaluation) for the modest success with Finnish companies are a) the size of the IFC projects and b) the inexperience and inability of Finnish companies to operate in a model the supplier may have to invest a lot of time and energy already in project preparation phases in order to have reasonable chance of getting deals secured. There are very few Finnish firms that are capable, resourced, and possibly also interested in operating in that way.

IFC investments are huge even in comparison to Finnfund's projects (in average 10 times larger). No wonder then, that FIBFC has so far had very little cooperation with the other MFA's PSIs.

Finland – IFC Blended Finance for Climate programme; portfolio

According to IFC approximately 50% of the total fund value of US$114 million has been committed so far (by 9/2020) and US$25 million disbursed. Of the disbursed investments one is geograpchically focused fund investing in Africa, the others are direct investments in LIC countries. One is in a fund. Somewhat in discordance with the operational logic of the fund, the share of senior debt is fairly high in the committed investments, but according to the IFC there are more equity projects coming in the upstream pipeline. The total value of current pipeline is about US$100 million.

By August 2020 there are no FIBFC commitments in the three case countries. One investment proposal is being assessed in the up-stream pipeline. FIBFC investment period continues until the end of 2022.

PSI Appendix 3: Finnpartnership

Presentation of the instrument[20]

Finnpartnership programme provides financial support for planning, development, piloting and training phases of projects and business activities of Finnish companies and other organizations (e.g. NGOs and research institutions) in developing countries. It also provides services related to match-making with developing country actors. The programme aims to increase commercial cooperation and promote long-term business partnerships between companies in Finland and in developing countries. Finnpartnership aims to generate positive development impacts by its activities.

The MFA launched Finnpartnership in June 2006. The administration of the programme was outsourced by tendering procedure to Finnfund. The MFA has since renewed the contract three times by tendering (2009, 2012 and 2016). Finnfund has so far won the contract each time, and each time the MFA has also extended the contract for some years within the provisions of the option periods in the contract. The current programme period lasts (after extension of 3 years) until the end of 2021.

Finnpartnership has two main products/services[21]:

1. BPS gives financial assistance to Finnish businesses for researching opportunities in developing countries, and planning, development, training and pilot phases of projects in developing countries. . The services are intended for companies, educational institutions, NGOs (for their own projects, and for activities supporting business applicants) and other operators. The support is given as grant. The coverage of costs depends on the size of the applicant company and on the target country: from 30 per cent of the costs of the project of a large company in an UMIC country to 85 per cent of the costs for a project in a highly fragile state. Coverage percentage for NGOs and educational institutions for support activities of companies' commercially oriented projects is always 85 per cent.
2. Matchmaking service (MM) connects operators in Finland and developing countries with each and promotes developing country exports to Finland. Matchmaking services are is carried out in different kinds of seminars (see below), nowadays also by a web-based service and supported by database of companies' key information. This information can also be utilised by experts ("bongarit") that Finpartnership contracts to promote partnerships between interested parties.

Finnpartnership arranges and participates in seminars in developing countries and in Finland, alone and in cooperation with e.g. other Team Finland actors. It has since 2007 arranged "Doing Business with Finland" seminars all over the world. In 2016 15 such seminars were organized,

20 Most of the attention in this Annex is given to Finnpartnership's BPS, because it is the only Finnpartnership instrument actually giving financial support to companies, can to some extent be assessed also from a country perspective and be compared to other PSIs.

21 The programme's other current activities include "Advice and Training" and "Supporting the projects in environmental and social responsibility."

in 2017 12 (one in Kenya) and 2018 12 (one in Kenya and one in Zambia, with others mostly in Africa, reflecting the change of emphasis in Finnpartnership operations towards the continent). In such occasions Finnpartnership spreads information of BPS and pursues to match developing country and Finnish companies and other parties. Since 2018 Finnpartnership has in its MM service increased efforts to actually make Finnish and developing country companies interact, in addition to enabling them to get information of each other. This has led to an increased number of actual connections.

Business partnership support (BPS)

Finnpartnership supported activities can be carried out in all countries defined as developing countries by the OECD/DAC, and in all industries (except the ones on the exclusion list defined by the MFA), according to demand from companies and other organisations. In recent years there has, however, been an emphasis from the part of Finnpartnership on Africa, LDCs, and fragile states, with clear consequences for the geographic and country group distribution of support decisions as presented in Table 5.

Table 7 Distribution of granted Business Partnership change from 2016 to 2018

Geography	2016	2018	2019
Africa	31%	51%	55%
LDC	10%	38%	49%
Fragile states	0%	12%	24%

Source: Finnpartnership Operational Reports

In many cases the company applies and is given support for e.g. partner identification, preliminary project study, or project study in several countries at the same time. If supported activities then lead to further preparations for local presence or partnerships, it happens in one/some of these countries (see Table 6).

Table 8 BPS applications and decisions 2016–2019

	2016	2017	2018	2019
Applications (nr)	124	162	145	94
Decisions (nr)	89	121	82	71
Decisions (€ million)	4,53	5,39	5,04	4,25

Source: Finnpartnership Operational reports 2016–2019

Operational logic of BPS

BPS is Finnpartnership's key instrument. The purposes and project phases for which BPS can be applied are listed in Table 7.

Table 9 Purposes and phases eligible for Finnpartnership BPS

Purpose	Description/specification	Project phases (all purposes)
Establish a joint-venture in a developing country	With a local operator	Partner identification Pre-feasibility study Feasibility study Business plan Environmental and social impact assessment Pilot or proof-of-concept projects related to commercial/ merchandised technology or solutions Training of employees of the company or another approved operator in the developing country Use of experts to develop a specific business area of the company or partner in the developing country Vocational education and training and support for local education and training activities
Establish a subsidiary in a developing country		
Importing from developing countries	Import to Finland and potentially to other countries	
Subcontracting, service, franchise or licencing agreement	The licencing/franchising agreement must be associated with long-term cooperation with a local partner including partner training, contractual support or co-development of product/service	
Pilot or proof-of-concept projects	Related to commercial/merchandised technology or solutions.	
Support projects implemented by NGOs and institutions	Has to be directly related to BPS projects of companies. The NGO/educational institution itself is not seeking to establish commercial activities. A support project is intended to develop the local community and must also be directly related to the project of the company seeking BPS by e.g. • increasing capacity of stakeholders (incl. corporate responsibility and human rights issues and occupational, technical and commercial education), • developing cooperation networks, piloting products and services • developing cooperation and innovation platforms, and • organising seminars and workshops related to business partnership projects as a part of general awareness raising and influencing efforts	
Developing vocational education or starting a new form of education	For example, a study programme. "The purpose […] is to create occupational expertise that promotes the applicant's BPS project in the target country. Operators that aim to engage in education business must be seeking to become established in the target country."	

Source: https://finnpartnership.fi/fi/developing-business-together/; and Business Partnership application forms

Support can be applied at the same time for several purposes and project phases, and majority of applicants use this opportunity. Table 8 shows distribution of funding decisions in 2018 and 2019 according to project purposes and phases, while Table 9 shows distribution of funding decisions in the same period for project phases.

Table 10 Funding decisions according to project purposes

Project purpose	2018	2019
Establishing a joint venture in a developing country	43%	39%
Establishing a subsidiary company in a developing country	29%	24%
Other long-term partnership	17%	24%
Subcontracting production and/or services	27%	19%
Licensing	8%	6%
Production or other activity involving transfer of know-how or technology	7%	5%
Importing from a developing country to Finland	5%	5%
Pilot project with an international organization	0%	2%
Supporting activity	5%	0%

Source: Finnpartnership

Table 11 Funding decisions for project phases

Project phase	2018	2019
Feasibility study	62%	55%
Training of employees of the company or another approved operator in the developing country	61%	38%
Business plan	58%	52%
Partner identification	54%	49%
Pilot or proof-of-concept projects related to commercial/merchandised technology or solutions	49%	21% *)
Pre-feasibility study	30%	27%
Environmental and social impact assessment	29%	27%
Use of experts to develop a specific business area of the company or partner in the developing country	8%	2%

Source: Finnpartnership

**) Support for piloting was in 2019 approved only to projects that made part of the activities of international organisations (EU, UN associations, international financing institutions).*

BPS was given for all eligible purposes, all eligible phases (not just for partner identification), and combination of these. The recipients of support constituted a heterogenous group of companies, form ones just starting to explore possibilities to operate in developing markets, to companies already established there.

A company can also have Finnpartnership BPS several times for same kind of purposes in different markets. One of the interviewed companies submitted three consecutive applications for three similar projects in different geographies, and all were accepted. The (current) application form requires information on how the applicant's project is financed. The BPS terms and conditions state that, e.g. other public funding instruments or fees received from clients for the activities may not be used to cover the same expenses as BPS.

Most of the applicants that were given support are SMEs, as presented in Table 10 and Table 11.

Table 12 Recipients, % of support (€) 2016–2018

Recipient	2016	2017	2018	2019
SME	91	74	85	85
Large corporation	7	13	8	9
NGO or similar	0	0	5	4
Research or education institution	0	12	2	2

Source: Finnpartnership Operational reports on 2016–2018

Table 13 Recipients, % of support (nr) 2016–2018

Recipient	2016	2017	2018	2019
SME	96	71	87	85
Large corporation	3	18	7	7
NGO or similar	0	0	2	4
Research or education institution	0	9	4	4

Source: Finnpartnership Operational reports on 2016–2018

Based on Finnpartnership's own statistics and interviews made for this evaluation it appears that a significant share of supported projects does not lead to actual partnerships or established businesses. For example, of the 105 companies, whose applications were approved in 2015, 15 reported established subsidiaries or joint ventures in developing countries two years later.[22] For 2014 the corresponding figures were 11/90. How many of the established businesses actually started operations, is not clear.

Bearing in mind the purposes and phases for which BPS is given, estimating any kind of "success rate" is difficult. In many cases, the support has been important for recipients even if it has not led to new partnerships/established businesses. 46% of 2014 support recipients considered their projects to have been successful. 88% of the companies that received support in 2015 told the support had added value to their operations[23]. The corresponding figures regarding recipients of the 2014 support decisions was 85%.

There are various reasons and explanation to this. One is that when support is given for example for identification of potential partners in a market, and the company finds none that would fulfil conditions required of a feasible business partnership, the project still may be considered as success by the company. It has increased understanding regarding the market and the country, and possibly saved the company money and human & technical resources by directing it away from the market where profitable business would not be feasible.

Many of the support recipients appear to be fairly inexperienced in developing, especially African markets. Expectations and preliminary plans are sometimes unrealistic, and checking them with BPS is of value for applicants. Discussions with Finnpartnership staff, and with Finnfund experts used for e.g. assessment of the project's potential development effects and responsibility issues appear to be eye-opening for many applicants. It increases their understanding of developing market conditions and of what is needed to operate there successfully.

22 According to the 2019 Development effects report, that presents the achievements of the projects approved for support in 2015).
23 Kehitysvaikutusraportti 2019.

Eligibility for support

Finnpartnership states it evaluates applicants' projects on commercial, social and environmental criteria. More specifically the criteria are:

1. An aim that conforms to the terms of BPS
2. Commercial profitability and viability
3. Development impacts
4. Environmental and social responsibility

In addition, attention is paid to a) sufficiency of the applicant's resources for the project b) direct development effects in case of projects in UMICs c) potential effects of de minimis regulation for the applicant. The background information of the applicant entity and its key personnel is also checked.

When assessing the commercial profitability and feasibility, as well as fulfillment of environmental and social conditions Finnpartnership draws, when necessary, on Finnfund's investment team's expertise.

There is no specific formula or "decisions key" (based on e.g. scoring) as to how the criteria are used, though there are exclusion criteria (e.g. lack of suitable project goal). The MFA makes the funding decisions based on a holistic picture it gets of the application.

MFA guidance and RBM

The government guidance and MFA's RBM are executed through:

1. Programme definition and agreement on the implementation of the programme between the MFA and Finnfund. A specific document to guide the programme during 2019–2021 was written in 2018.
2. Steering group (SG), consisting of representatives of MFA departments and units, and the representative of Finnfund. SG decides on annual operational plans and budgets and accepts reports. It also decides on individual support cases, prepared for the SG discussion by Finnpartnership team.

In addition there is frequent informal exchange of information between Finnpartnership and the Ministry staff, including especially the unit (KEO-50) responsible for the programme.

The PA2 outcomes and outputs have been discussed between Finnpartnership and MFA, and Finnpartnership processes have been developed in several ways to match them. Thus for example in workshops that the programme arranges for applicants, more human rights-related content has been included. Vouchers have again been taken in use (after a couple of years break) that applicants can use to receive consulting services on human rights or environmental issues in projects rated as having high (A) or moderate (B) ES risk, etc.

The management of the programme sees that the original programme (2006) was well designed, and new elements have been continuously and successfully added to the programme as soon as need for them has arisen. Thus, the new government policy paper of 2016 or the PAs and their ToCs did, not affect operations significantly. Themes like gender equality, emphasis on Africa or fragile states have been integrated in operations. Inclusion of ES responsibility issues, including human rights has increased demand for support services to help applicant companies to comply. The MFA has allocated more funds within the programme for the issues, on which it has demanded such stronger emphasis.

However, while Finnpartnership has aligned its processes with the new policy priorities, it is difficult to assess what actually is the relation of Finnpartnership operations to the PA2 framework.

What Finnpartnership does and accomplishes, may well contribute to the realization of PA2 and outcomes. But to what extent this happens at the intervention level, and how effectively, is difficult to assess. The assumed causal or contribution chains are long and fragile, dependent on many assumptions. Especially there is not a direct connect between a) supported activities b) development effects assessed and monitored by Finnpartnership and c) the outputs, outcomes and indicators included in the PA2 ToC of 2020.

This is partly due to the vagueness of the PA2 ToC and quality of its indicators. But it has also got to do with the policy objectives of Finnpartnership; they are not derived directly and only from the development policy-oriented PA-framework. The programme is also expected to e.g. support Finnish companies in finding partners and establish businesses in developing markets.

In addition, there is in Finnpartnership also no sector focus that would have been chosen to serve PA2/development policy goals alone. The programme is strongly demand driven, so companies apply support according to their own business plans, and interests. The programme (or Ministry) has relatively little to say in guiding, in what sectors and business models companies should be investing their resources. In a situation, in which there is a general need to get more Finnish companies interested in developing markets, especially in countries considered too risky (as many e.g. African countries are), lack of overly strict guidance or sector/ business model limitations for eligibility appear reasonable.

Due to the programme's demand driven nature the supported interventions do not necessarily have direct links to the host country needs or their governments' development plans and strategies. Such kind of policy relevance is not included in the selection criteria, and the applicants are not required to demonstrate it during the application process or project implementation.

Policies and tools

Development effects and their assessment

All Finnpartnership projects are expected to generate positive development effects in the host/ target country/market.

The development impacts of which applicants have to do an ex-ante assessment in the application phase[24] include:

- Employment effects
- Gender effects
- Training effects
- Technology and know-how transfer
- Market and Structural effects
- Infrastructural effects
- Social effects
- Environmental effects

The effects are to be assessed envisaging the situation after the completion of the project. Finnpartnership staff assess the potential effects after receiving the application, Finnpartnership staff may also support the applicant in identifying plausible development effects.

The support receiving company has to report on the realization of the effects at the time of disbursement; in the first follow-up report (one year after the expiration of the support) and in the second follow-up report (one year after the first follow-up report).

24 Application template on the Finnpartnership website in August 2020.

On the Finnpartnership web pages the potential development effects are described more extensively, and for example tax and other revenues for the public sector are mentioned as potential effects. In the application form the applicant is not required to give information on potential tax effects. Finnpartnership does not have a specific tax policy, and applicants/support receivers are not assessed using tax responsibility criteria/tool, nor are they expected to share tax responsibility related information of themselves or their partners. The consequences of the 2016 Tax and Development Action Programme for Finnpartnership guidance given by the MFA appear to have been marginal. How the implementation of the new, 2020 Action Programme will affect it, will be seen when the MFA internal guidance note on the Programme's application at PSIs will be finalized.

Finnpartnership has produced a guide on businesses' potential development effects for applicants to consult in the application phase.[25] (Guide to impact business and financing).

It is not very easy to see and assess development effects generated by Finnpartnership operations. The available information on them is mostly on either fairly general or inadequate for a proper assessment. This applies both to the programme as a whole and to the supported interventions.[26]

In the application phase the applicants have to choose which OECD/DAC development objectives they consider as primary and secondary. The classification suits ill to many private sector initiatives, which are not designed like grant based public projects and programmes, derived from a recognized development challenge. The underlying logic and prerequisite of any commercial initiative is profitability, though it can be achieved also by trying to tackle development challenges. Consequently, many applicants struggle to use DAC markers, and even leave this part of the application empty.

Finnpartnership arranges (together with BEAM and later with DevPlat) application work-shops, in which potential applicants are familiarized with SDGs and helped to see how their businesses relate to them and generally to development challenges. In addition Finnpartnership has made a development effects self-assessment tool[27] available for applicants. Additional, applicant-specific guidance is also available. The contents of the workshop and of the Guide are mainly on a fairly general level, describing development challenges and SDGs, but struggling in linking the businesses' intended operations to solving/achieving them.

This said, many of the interviewed companies commented especially the (application and SDG) workshops positively. This likely reflects the low level of the initial knowledge of development theme and concepts. Quite few applications include a reasonable description of how the intended business will generate – or contribute to generating – supposed development effects, and/or sufficient data to warrant the claim.

On a methodological level there are many features in the Finnpartnership development effects and ES risk assessments that affect their adequacy and reliability, e.g.:

- The data and information used are provided by applicants. Though Finnpartnership and Finnfund experts view applications and reports with a critical eye and ask for additional information when needed, the basic data they work with is often of poor quality and/or reliability. Ability of applicants to see potential development effects of their projects is – understandably – limited.

25 https://finnpartnership.fi/wp-content/uploads/2019/09/FP-Know-your-impact-Guide-to-Impact-Business-and-Financing.pdf

26 As a detail it is worth noting that Finnpartnership reporting templates do not follow the structure and content of the application form, especially in what regards development effects. This makes following the realization of the anticipated effects difficult.

27 https://finnpartnership.fi/wp-content/uploads/2019/09/FP-Know-your-impact-Guide-to-Impact-Business-and-Financing.pdf

- The data presented in aggregate Finnpartnership reports are often on inputs, sometimes outputs. Finnpartnership development effects reporting produces an abundance of numerical data on e.g. disbursed support (€ and nr.), and its geographic and sector distribution. For example, the fact that the number of Finnish companies aiming at LIC markets is increasing is undoubtedly welcome and a good. From the perspective of what is normally understood as development effects assessment, it does not tell much.
- Following what has been said above, attribution of many of the reported effects to Finnpartnership support, or claims of its strong contribution, is in many cases unwarranted. This applies to development effects and business establishment. Even in cases in which a supported company has later established businesses or invested in a developing market, attributing it to the Finnpartnership support overstretches the assumptions on the effectiveness of this support in many cases. Finnpartnership's BPS for example covers only part of the costs and activities needed for landing on a new market, and often the supported activity is in a very early stage (like market research and partner identification) of business development/establishment project. Plenty of other financial, human and other resources and inputs are needed in order the project and establishment in the new market to realize. Similarly, attributing. e.g. number of employed people, and especially additional employment (change) to Finnpartnership support is often not possible.

Effectiveness of Finnpartnership support is thus strongly conditioned by a multitude of factors not included in reporting the effects. Generally, it can be said that the supported activities are often in so early phases of business development, or establishment of the business on a new market, that verifiable results chains between them and overall development policy goals and outcomes is difficult to identify.

ESG and risk analysis, including tax, gender and human rights

To get BPS or participate in match making services the company has to commit to general terms and conditions that include e.g. the minimum requirement is that the supported activity complies with the laws of the country of operation and it may not have any major negative social or environmental impacts. The terms also state that the purpose of the activities to which support has been granted must be socially acceptable. The company must comply with all the relevant laws and regulations pertaining to occupational health and safety as well as social and environmental matters in the country of operation. (Reference is made to IFC PS). The company must also comply e.g. with the principles of good governance and measures against corruption, among other things, in all procurement and other activities related to the project.[28]

Responsibility of applicants' projects is assessed based on the World Bank and IFC (International Financial Corporation) standards that govern environmental and social impact and their management. [29] Applicants are expected to commit to these standards. Finnpartnership can support the applicant in e.g. completing environmental and social impact studies as a part of the project.

Each application is rated (A, B, C) by Finnfund's responsibility experts according to its environmental risk. In case the rating is A, relevant conditions or recommendations can be given, and the applicant is bound to report on their fulfilment as a condition for disbursement. In "A" cases the applicant can also (nowadays) be offered a voucher with which it can purchase expert help/consulting on the problematic issues. Each applicant project is also given a social risk rating. Applicants are expected to assess the human rights related risks of their project. They can use separate vouchers for this.

28 https://finnpartnership.fi/wp-content/uploads/2017/10/CodeOfConductOfFinnpartnership.pdf
29 IFC Performance Standards and World Bank Group EHS Guidelines).

Regarding gender effects each applicant should assess (and later report), whether "*the project has a positive effect on the status and professional employment of women (e.g. maternity leave, anti-discriminatory efforts)*", and more specifically, whether it aims to support the employment and working conditions of women, and whether it has features that have positive impact on the employment and working conditions of women.

Realization of ES conditions/recommendations are checked before support disbursement, and the disbursement can be delayed/cancelled if the progress has not been sufficient F

Much of what has been said about development effect assessment, monitoring and reporting at Finnpartnership (e.g. the origin and quality of data; analysis of potential consequences of business activities) apply also to responsibility and ES risk assessment, monitoring and reporting. The main reason behind this is also same: the activities for which support is applied are mainly in the very early phases of business development and the assumed results chain.

This applies e.g. to the assessment of environmental or human rights risks of the potential commercial operations when the applicant is going to a country for the first time, to carry out a market research and see around for potential partners in the sector. Sector specific ES risk ratings can provide some support for risk assessment, but do not solve the problem. For example an applicant on a certain sector, eager to apply a certain Finnish technology in a developing country circumstances, may be unprepared to answer to questions on the potential future form of the joint venture it is aiming at (a potential governance and tax issue), on its business model (potential human rights, labour and gender issues), or on the need to invest in physical buildings, and possible subsequent need for land acquisitions (e.g. land use and community rights issues). Answers the applicant can give to such questions, therefore often provide an inadequate basis for a risk analysis.

Finnpartnership in relation to other PSIs

Finnpartnership and BEAM both focus on businesses which still are in very early stages in their efforts to launch operations in the developing markets. Consequently, the two programmes have potential to cooperate, but also overlap with each other.

Cooperation between Finnpartnership and BEAM has had its hick-ups but has improved markedly in recent years. Finnpartnership management sees the programme to be the commercially oriented ODA channel, whereas BEAM's goals link more directly to the internationalization of Finnish enterprises and promotion of innovations, thus complementing Finnpartnership. The two programmes nowadays arrange for example joint application workshops to businesses interested in developing countries and emerging markets.

There are many cases in which the company has received support both from Finnpartnership and BEAM. In some cases there appears to be a smooth and logical continuum from for example market research and partner identification activities supported by Finnpartnership, to technology development, localization and piloting, supported by BEAM. It is not clear whether there has been cooperation and coordination between the programmes in such cases The recently launched BEAM's successor programme Developing Markets Platform (DevPlat) is expected to define the roles of the programmes more clearly. The Finnish Funding Agency for Technology and Innovation (TEKES)/Business Finland (BF) would finance Finnish companies' main projects and Finnpartnership for example NGOs' support activities to those projects.

There is among the interviewed case companies one case, in which an Finnpartnership (and BEAM) supported company is also in the PIF pipeline.

Though Finnpartnership programme is run by Finnfund, the link between them is weak in a sense that Finnpartnership has not been able to help in Finnfund investment origination, i.e. support its customers in a way that would enable Finnfund to consider financing them. There appears to be (at least) three obstacles to this:

1. Finnpartnership supports Finnish companies whereas Finnfund finances companies of developing countries[30].
2. Difference in scale: whereas Finnpartnership support is in the magnitude of €10,000-100,000 on average, it is often not feasible for Finnfund to even consider investments with tickets smaller than €1 million. Companies that are supported by Finnpartnership are normally by far too small for Finnfund.
3. The targeted phase of business development differ a lot from each other; Finnpartnership support goes often to companies considering, starting or planning to start business activities in developing countries, whereas to be eligible for Finnfund financing the client/sponsor or the financed company normally has to be already established and profitable.

Feedback from supported companies

Approach and methodology: A sample of supported companies projects were selected for more thorough document analysis (applications, reports) and interviews. The sample was constructed so that all projects took place in at least one of the three case countries (Kenya, Tanzania, Zambia). In addition, at least one of them

- had led to an established partnership(s);
- had received several tranches of Finnpartnership support;
- had received a relatively large total amount of support;
- had received support also from BEAM;
- was an NGO project and/or a company project to which a Finnpartnership supported NGO project was linked.

Semi-structured interviews were carried out with 5 sample companies and one NGO. (3 companies did not reply to interview requests). The questions were fairly widely defined, allowing interviewees to bring forth issues they considered relevant. [31]

Key take away from interviews

Businesses often feel uncomfortable with the development policy concepts and approaches, as well as data & reporting requirements related to the use of ODA funds. Finnpartnership has tried to tackle this by explaining these requirements as early as possible in the application process. Application workshops have been one of the tools chosen for this.

Workshops were greeted by many of the interviewed support receivers. Some of them told that workshops were the first instance in which they got some kind of grasp of what the terms and concepts of responsibility and development actually mean.

The gap between the fairly generic workshops on e.g. SDGs and the actual requirements of the Finnpartnership application and reporting process, was however considered wide. Two of the interviewed companies reported they had needed help from development and responsibility experts to fill the application:

"You should not try to force a start-up to comply with standards developed and needed for some big energy project in Honduras."

30 That Finnfund finances developing country companies with Finnish ownership, technology or similar links ("Finnish business interest") makes it in theory possible for a company to get support from Finnpartnership and finance from Finnfund.

31 The question list was modified to some extent in the case of the NGO project.

The question on whether the applicants had checked how their businesses could fit to the host country governments development policies and strategies was found not to suit to the realities of an SME aiming at first time to a developing market.

"This is the question that really somewhat angered me."

The Finnpartnership staff and their attitude were lauded:

"They do excellent work and are always willing to help."

"Professionals."

Some interviewees criticized the application and reporting process for being bureaucratic, some considered the application part streamlined and smooth but untransparent[32]:

"Very heavy process in relation to available support."

"Smells like ministry. If you compare to e.g. processes and procedures of Business Finland, Finnpartnership is very bureaucratic and slow. I would not like to go through the process again."

"A straightforward application process, but like a black box; you do not get proper justification for decisions."

Some of the support recipients found it was difficult to distinguish and/or name the purposes and phases of the projects they applied support for.

Amounts available from Finnpartnership were considered far too small to make a difference in the actual establishment in the new market.

"If you start from scratch, it (Finnpartnership support) helps you to look around in the market or a country, but not much more".

The BPS was, however seen as a valuable element in deciding whether or not to try to establish in a developing market, and in supporting first steps, if the decision was positive. Two of the interviewed companies also emphasized, that the main result of Finnpartnership support is not – and should not be thought to be – the actual starting of business activities in a developing country. The support is too narrow qualitatively and too small in monetary terms. Instead, Finnpartnership funding raises businesses' interest in developing countries and supports initiatives of testing markets in them. Many companies get their first experience of e.g. African markets through a Finnpartnership funded project, and may then later be willing, more knowledgeable and have more capacities to start establishing their businesses in these markets, i.e. continue from where Finnpartnership funded project ended.

Proposals to further improve and develop Finnpartnership services and support included e.g.:

Supporting clusters of the companies in the same sector instead of individual applicants

Instead of Finnpartnership supporting and then each of the companies familiarizing with the market and identifying partners and potential financiers by themselves, it could be provided resources to support companies with such services in the field.

When asked about the overall MFA PSI palette available for private sector operations in developing markets, majority of the interviewed companies described it good, but complicated and difficult to understand. Roles of different instruments were not clear.

"Very useful but very messy", was one of the answers.

32 It is to be noted that during the Final evaluation of the Finland-Vietnam partnership programme (IPP) several Finnish companies that have participated in that programme, were interviewed, and also asked to compare different PSIs against each other. The comments on the heaviness of the Finnpartnership process and difficulty of development related concepts within it were very similar with what companies stated in the interviews of this evaluation.

Finnpartnership portfolio

The data on Finnpartnership BPS funding presented here is gathered from the MFA Excel file "Development Cooperation projects Funding decisions 2015–2019" and includes all Finnpartnership projects for which commitments have been made during the period 1.6.2015–19.12.2019. The data is therefore overlapping with the overall MFA portfolio data presented in the main report of this evaluation in which the data on only those Finnpartnership interventions were presented that were rated along government priority areas. Rating of Finnpartnership interventions according to priority area was begun only in the spring 2018. Until 1/2020 it was made by Finnpartnership staff, and thereafter by the MFA.

The data presented here thus covers 334 Finnpartnership interventions, including both the interventions not rated against PAs (e.g. commitment decisions prior to and during the spring 2018) and the interventions rated against them (commitment decisions post spring 2018 of which 112 had been rated as having PA2 as the priority objective).

Presentation follows OECD/DAC sector/purpose specific CRS categorisation.[33]

The total commitments by the MFA for Finnpartnership interventions was €18.2 million as presented in Table 12.

Table 14 Development Cooperation projects Funding decisions for Finnpartnership 2015–2019

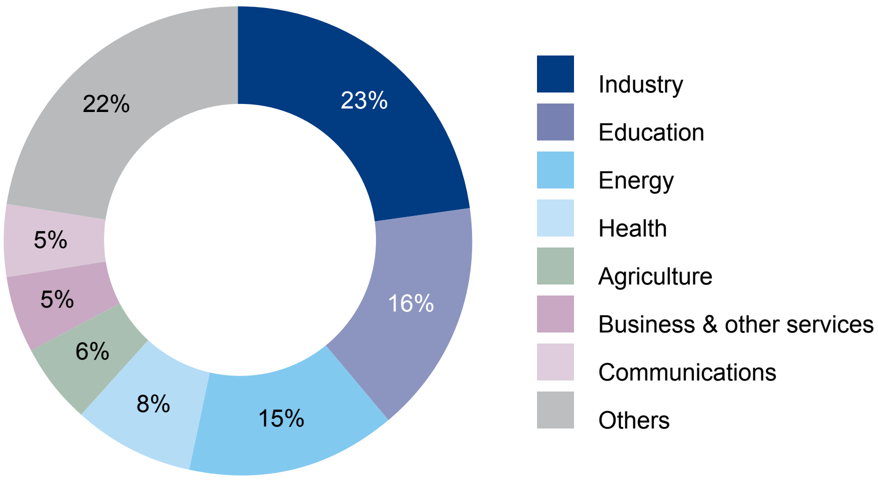
	Nr	% of all	Comm. €	% of all
All interventions	**334**		**18155.003**	
PP2 as the priority objective (1)	**112**	**34%**	**6,764.659**	**37.3%**
110 Education	53	15.9%	1,984.37	10.9%
120 Health	27	8.1%	1,971.72	10.9%
140 Water supply and sanitation	15	4.5%	937.12	5.2%
150 Gov. & Civil Society	4	1.2%	177.27	1.0%
152 Conflict, peace & security	2	0.6%	123.16	0.7%
160 Oth social infra & sevices	13	3.9%	552.57	3.0%
210 Transport & Storage	8	2.4%	641.59	3.5%
220 Communications	16	4.8%	906.90	5.0%
230 Energy	49	14.7%	3,578.71	19.7%
240 Banking & financial services	2	0.6%	74.33	0.4%
250 Business & other services	18	5.4%	677.65	3.7%
311 Agriculture	19	5.7%	730.36	4.0%
312 Forestry	5	1.5%	185.82	1.0%
313 Fishing	1	0.3%	25.24	0.1%
321 Industry	77	23.1%	4,421.80	24.4%
322 Min. resources & mining	1	0.3%	23.43	0.1%
323 Construction	5	1.5%	224.21	1.2%
331 Trade policy & regulation	0	0.0%	0.00	0.0%
332 Tourism	2	0.6%	51.52	0.3%
410 General environmental protection	5	1.5%	455.63	2.5%
430 Other Multisector aid	5	1.5%	63.87	0.4%
730 Reconstruction and rehabilitation	3	0.9%	89.47	0.5%
740 Disaster prevention & preparedness	1	0.3%	98.66	0.5%
910 Admin. Costs of donors	0	0.0%	0.00	0.0%
998 Unallocated	3	0.9%	159.61	0.9%
Total	**334**	**100.0%**	**18,155.00**	**100%**

MFA: Development Cooperation projects Funding decisions 2015–2019.

33 Finnpartnership has its own sector classification which differs somewhat from the CRS.

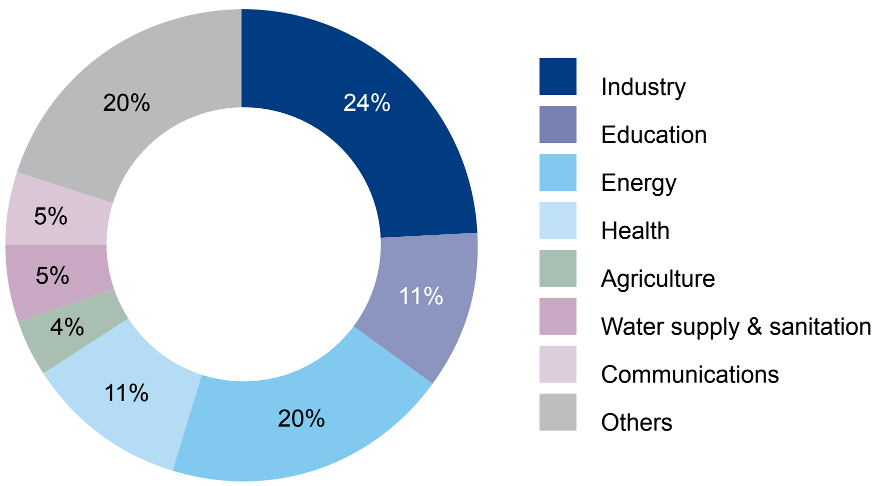
Both when divided according to the number of interventions and the volume (€) of commitments, the largest sectors are industry, education and energy (see Figure 9 and Figure 10).

Figure 9 Sector division of Finnpartnership interventions by number of interventions



Source: Development Cooperation projects Funding decisions 2015–2019.

Figure 10 Sector division of Finnpartnership interventions by the volume of commitments



Source: Development Cooperation projects Funding decisions 2015–2019.

PSI Appendix 4: BEAM

Presentation of the instrument

BEAM (Business with Impact) was a 5-year programme financed jointly by the MFA and TEKES/BF. Both committed €12.5 million to the programme. The MFA part was reported as ODA, whereas the TEKES/BF part came from the organisation's innovation funding resources. With some 25 million additionally from the private sector the amount of total financing decisions during the programme reached appr. €60 million, since TEKES/BF ended up putting in additional financing. Number of supported projects at the end of 2019 was 151.

BEAM was implemented in 2015–2019. At the beginning of 2020 a successor programme "Developing Markets Platform" programme (DevPlat) started its operations.

BEAM was based on the vision that Finnish companies and other actors are part of the global ecosystems that create economic, environment and societal impacts both in Finland and developing countries. Programme's mission was to help Finnish companies build successful and sustainable businesses in Finland and developing countries through inclusive innovations for societal challenges.

The immediate objective of BEAM, as stated in the programme proposition was that participating private sector partners, education and research organisations and civil society organisations in developing countries and in Finland create new innovations and new knowledge and knowhow. Finnish companies and other actors would thus participate in solving global development challenges with the help of innovations.

Operational logic and eligibility for support

The programme offered funding for company driven projects in developing markets, covering market analysis, capability building, R&D and piloting of new solutions. Maximum coverage of the applicant's costs was 50%.

BEAM also:

- Distributed information about the needs, business opportunities and contacts in developing markets;
- Supported localization of Finnish businesses' offerings and business models;
- Helped in identifying funding sources, partners and projects related to development banks in developing markets.

Support applications were submitted to BF, which forwarded to the MFA the ones that were considered to fit the programme. The MFA assessed the applications' potential development effects, and decided on that basis, whether to fund the project. In cases in which the MFA support was declined, BF considered whether to fund the project alone.

Innovations eligible for BEAM support could be new products, services, forms of business activity, technologies and social innovations. "Innovation" was not defined in detail, nor was any best practice definition used by any other organisations applied.

The programme encouraged applicants to form partnerships with developing country entities, but eligibility was restricted to Finnish companies, NGOs and universities in the sense that the lead partner of such partnerships/consortia, and the recipient of the funding had to be Finnish.

There were no limitations regarding the sector of business. Eligible countries were those listed as recipients of official development assistance by the OECD/DAC (excluding China). During the course of the programme some markets were defined as primary targets. At the end of the programme those were: Sub-Saharan Africa, India, Vietnam and Indonesia.

At the beginning the programme applications that were received and funded were on smaller projects, designed by small companies, often with NGOs and research organisations. When the programme later became better, also larger consortia started to submit applications. Many research organisations had in that phase developed their ideas further and took part in consortia or led ones of their own. Large (both private and public/ listed) companies became also more aware and interested.

Ownership guidance and RBM

A developmental evaluation of BEAM programme begun in September 2015 and continued through the whole duration of the programme until the end of 2019. An important objective of the developmental evaluation was to document the progress and the choices made during the course of the programme, and to provide the programme management team with informative means to learn from experiences in order to improve the service delivery. At the same time the objective of the evaluation was to provide the means to verify achievements against intended results as well as unintended consequences – both positive and negative.

BEAM had a Programme Supervisory Board to discuss overall programme direction. The board was chaired by the responsible TEKES Director and comprised of members from industry and representatives from the two funding ministries. When TEKES was merged with BF, the supervisory board was replaced by an Advisory Board for the Developing Markets Business Area.

A joint Management Team, consisting of e.g. TEKES/BF, the MFA, The Ministry for Economic affairs and Employment (MEAE) and other stakeholders was responsible for planning and coordination at the practical level.

Day-to-day management was the responsibility of the BEAM core team at Tekes and later at BF. TEKES/ BF and MFA contributed to the evaluation of project applications, identification and activation of market opportunities. The BEAM programme management at BF has prepared annual progress reports to MFA.

When it comes to MFA RBM, there appears to be no link between BEAM and the PA2. BEAM projects have not been rated according to PAs, and PAs have not been visible in BEAM planning and/or reporting.

Policies and tools

Development effects and their assessment

As stated above, the MFA RBM had fairly little to do with BEAM. Any clear, direct link between PA 2 outcomes (not to say anything of the 2020 ToC's outputs and indicators) and things that BEAM listed as development effects and impacts is difficult to find.

The BEAM portfolio analysis (February 2019) listed development targets such as:

- Business competitiveness
- Technology strategy
- Work organisation
- Working processes and methods
- New material product

- New service
- New production process
- Societal or social innovation
- Method or a programme
- Combination of cross-scientific knowledge
- Basic competences required in the project
- Technology with multiple applications

In the final report of the BEAM developmental evaluation, the impact dimensions of the programme were stated to be:

1. Justification and strategic fit
2. Activation impact
3. Impact on economy and growth
4. Impact on capabilities, competitiveness and renewal
5. Impact on collaboration and networking
6. Development impact
7. Impact on innovation ecosystems

"Development impact" is thus separated from other impacts, though there are in the more specific explanations of other dimensions elements which in private sector development programmes or development finance often are understood as development effects. Generally, it can be said that impact dimension logic has very little in common, or compatibility with the MFA RBM.

During the first years of the programme the BEAM applications' potential development effects were assessed by the MFA sector advisers, who all got their own strong sector expertise, but not necessarily much knowledge of private sector's abilities and needs. There was also little standardization of assessments, tools that were used, or assessment reports, which created some confusion among applicants and at BF. In the spring 2018 an ex-ante assessment tool was developed, and later used for all assessment by an external consultant. The tool assessed and gave scored applications from the point of view of

1. Their relevance and coherence with for the host country's and Finland's policy goals
2. Contextual realism
3. Potential development effects and impacts
4. Potential ESG and reputational risks.

The data for the assessment was collected from applicants with a specific form.

Even this tool, used from May 2018 to end of 2019 to support the ministry's financing decision had only vague links to the above listed BEAMs "development targets" and very few to the "impact dimensions". It did not link to what was asked and reported as development effects in the BEAM's client surveys and evaluations either. In a similar way it had little to do with the contents of SDG workshops that BEAM organized to the interested companies and applicants together with Finnpartnership. What the applicants were told about the pursued development effects, and on what basis their applications were approved or declined did thus not meet.

These discrepancies show how far away from each other the two ministries/organisations funding the BEAM were, how differently they saw the purpose of the programme, and how difficult it was to combine these views. BEAM, being a demand/market driven instrument, was in its goal setting and reporting much closer to businesses' operational, practice-oriented objectives than MFA's development related, public good-oriented objectives.

It is thus not surprising the MFA requirements related to development policy goals have sometimes posed a challenge for applicants, even to TEKES/BF. Applicants/supported companies have sometimes experienced development related aspects to be abstract and showing missing understanding on how different principles can or cannot be implemented in the businesses' reality.

Inclusion of SDGs tighter to the programme goals has somewhat helped in this. It has proven to be easier to inform businesses about developing markets' opportunities by referring to the demand created by SDGs.

The programme was subject to a developmental evaluation alongside programme implementation, including both a mid-term evaluation in April 2017 and a final evaluation, published in December 2019. During the implementation also other, more specific evaluation reports were published.

According to the final report of the developmental evaluation the programme's objectives were achieved well. Of the supported projects 53% achieved their objectives as planned, 34% better than planned and 13% partly. The objectives, as described above, were related to applicants' business development plans, and not related to development policy goals

ESG and risk analysis, including tax, gender and human rights

Screening BEAM applications for ESG or human rights risks happened in connection of ex-ante assessment of their development effects. During the first years of the programme, these assessments were made by the MFA's Department for Development Policy (DDP) sector advisers, and there was no standard procedure or tool for them. The tool developed for ex-ante assessments in the spring 2018 included questions intended to screen ESG risks. It also assessed the ES risk using the European Bank of Reconstruction and Development (EBRD) Environmental and Social Risk Categorisation.

There were no specific questions on human rights risks, gender or tax issues in the assessment form, but they were included in the assessment when the information given by applicants allowed it. Human rights issues were understood to be partly covered by the EBRD classification.

BEAM in relation to other PSIs

There were some overlaps of BEAM with Finnpartnership concerning purposes /activities eligible for support. Both programmes for example supported "piloting technology and new solutions" (Finnpartnership), "R&D and piloting of new solutions" (BEAM). "Identification of a partner" (Finnpartnership) and "market analysis" (BEAM) came also often very close to each other.

Cooperation between the two programmes improved during the BEAM implementation period. Some kind of separation of roles emerged, though not explicitly documented, in which Finnpartnership was the "*commercially oriented arm of ODA-funding*", whereas "*BEAM had other, more business-oriented goals*", as one of the interviewees put it. Towards the end of BEAM programme period the two programmes cooperated more, and for example arranged joint application workshops to businesses interested in developing countries and emerging markets. Finnpartnership has also a role in the implementation of the Developing Market Platform, the successor programme of BEAM in that it supports preparation of applications, and participation of NGOs in BEAM projects.

BEAM's cooperation with PIF consisted mostly of exchange of information. With Finnfund and Finland's bilateral programmes there was in practice no links – the Innovation Partnership Programme with Vietnam being an exception. BF has been very interested in working with MFA around e.g. bilateral projects – or even just know more about them. "*It is waste of resources if different Finnish instruments and actors do not cooperate in difficult markets and environments.*" Fairly little concrete cooperation, has, however come out of this.

One of BEAM's functions was to support Finnish companies in finding funding sources, partners and projects related to development banks. Little concrete cooperation emerged with e.g. IFC Finland Climate Fund. Partly this is due to the different scales of IFC needs and Finnish companies' operations and offering.

BEAM support decisions 2016–2019

The number of projects with BEAM funding decision at the end of 2019 was 151.

It is not possible to make a comprehensive, accurate assessment of BEAM decisions between 2016 and 2019 against PA2, based on the data available for this evaluation. The first thing to note is that the programme was designed already in 2014, before the government's Decision in Principle of 2016, and the PA2. Though it has been developed and adjusted while implemented, the basic design has remained the same. It has not been reviewed to align with the PA2 objectives.

Secondly, the data available are far from consistent. The data have come mainly from the two main stakeholders/owners of the programme: BF/TEKES and the MFA.

Data on the MFA disbursement for BEAM interventions between 2016–2018 was received from MFA. (The data on disbursement in 2019 were not available.) It is to be noted, that the MFA funding covers only a part of the BEAM total financing, as reflected in Table 13 showing the programme's financing between 2015 and 10/2019

Table 15 Beam total financing 2015–10/2019, million €

Financing	Volume
MFA grants	11.9
BF loans	8.8
BF grants	10.5
Company funding	24.1

Source: Business Finland (BF)

Being on disbursements, the MFA data do not also totally reflect and cover the support decisions made during the period to be evaluated. According to BF the approved funding decisions between 2016–2019 totalled appr. €56.2 million. (It is to be noted that all decided amounts of support are never disbursed.)

Though incomplete, the MFA classifies disbursements according to CRS classification. BF and BEAM uses a different kind of classification. MFA data have here been used in order to use same classification as elsewhere in this report.[34]

From BF came country specific data on support decisions between 2016 and 2019. Because these data cover the whole period to be evaluated, they have been used for the BEAM case country analysis. (The MFA data clearly miss some projects in e.g. case countries.)[35]

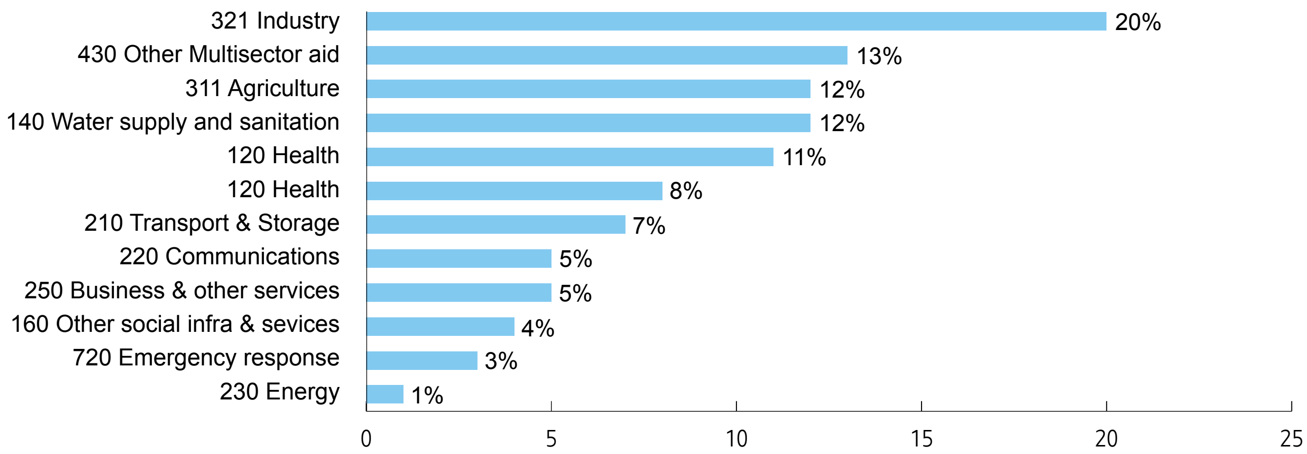
The inconsistency of the data generated and provided by the MFA and BF appears to reflect besides cuts in the information flows and the somewhat unclear working processes and roles between them, also – once again – the markedly different needs and objectives of the two organisations. Both of them generated data and statistics for their own purposes.

34 It is also to be noted that defining BEAM interventions by sector is challenging, since most of them concern business/technology development projects that are in very initial phases; a Finnish company has an idea of a technology, business mode, product or service it considers potential for emerging markets, but needs support to find out e.g. its relevance for the local markets or to identify potential partners. The sector may not yet be identifiable, and/or it may change later.

35 It is to be noted, that the case country specific sample of BEAM supported companies/foundations/research institutions could not be interviewed because the evaluation team did not have access to the project specific documentation.

The sector division or the BEAM funding decisions presented in Figure 11 is bearing these caveats in mind.

Figure 11 MFA financing for BEAM 2016–2018 by sector



Source: MFA.

The largest sectors based on the number of interventions appear to have been Other multisector aid, Agriculture, Water supply and sanitation, and Health.

13 Recommendation 4 addresses issues related to this framework.

PSI Appendix 5: PIF

Presentation of the instrument

The Public Sector Investment Facility (PIF) aims to support public sector investments in developing countries that comply with the SDGs of the UN and utilise Finnish expertise and technology. PIF is the successor for concessional credit instrument that was by earlier Finnish governments decided to be phased out.

PIF is based on the investment credit provided by a financial institution to the target country. The loan becomes concessional, when the MFA pays the interest subsidy to it, and provides other support measures out of the Finnish government's development cooperation funds.

PIF is classified as mixed credit since it combines development aid with export credit. PIF is classified ad tied development aid; funds are tied to the Finnish contractor delivering the project. At least one-third of the PIF project's contract agreement value has to consist of Finnish technology and/or expertise.

PIF is regulated by the Act (1114/2000) and Government Decree (1253/2000) on concessional credits granted to developing countries, the Act on the State's Export Credit Guarantees (422/2001) and OECD guidelines on export credit.

Operational logic and eligibility for support

PIF allows funding for public sector projects in LDC and LMIC countries that are eligible for export credit guarantees. Eligibility for export credit is assessed and the guarantee granted by Finnvera. Their debt sustainability is assessed on the basis of the International Monetary Fund's (IMF) and other international recommendations.

For a credit to be accepted as an interest subsidy loan, it must be granted an export guarantee by Finnvera.

Investments have to match the target country's national development needs and be aligned with its policy priorities. In many cases they have to be approved, besides by a sector Ministry or its agency/similar, by the Ministry for Finance of the recipient country. .

Finnvera guarantees the loan the developing country takes from a commercial bank to fund the investment. The Ministry for Foreign Affairs covers the loan's interest payments and part of the purchase sum in order to satisfy concessionality levels required by the OECD for publicly funded export credit; at least 50% grant rate in LDCsn and 35% in LICs and LMICs.

The MFA may support the preparation of environmental and social studies, human rights assessments and development impact indicators for selected projects.

Countries are divided in 4 eligibility groups. The first one, including e.g. Kenya, consists mostly of LMICs. For them the minimum concessionality level is 35%. The second group includes LICs and LDCs, for example Tanzania, with the concessionality level at least 50%. For the third group of countries PIF support can be granted only in exceptional circumstances. The countries in the fourth group, Zambia being one of them, are considered too risky to be eligible for PIF.

The recommended contract agreement value for a PIF project is €5–30 million. Minimum of 10% of overall project costs should be earmarked for capacity building.

Projects should not be commercially profitable in the sense that the project would allow the borrower to increase its profit margins so that it could pay off the interest and principal on a commercial loan out of those increased profits. Projects with contract agreement value not exceeding SDR (Special Drawing Rights at IMF) 2 million (approx. €2.2 million) however do not have to prove commercial non-viability.

Social services provision, water supply, energy and cleantech are mentioned as prioritized sectors, but also projects in other sectors eligible for development cooperation are accepted. A project can consist of goods, commodities, work or services that otherwise satisfy the PIF criteria.

Elements that are considered to be conducive for **development effects**:

- The project's outcomes respond to end users' needs and advance their rights.
- Human rights are integrated in the project's risk and development impacts assessment to ensure that the project has no adverse affects on human rights in the target country.
- The project produces technically, institutionally, socially, environmentally and economically sustainable outcomes.
- The project's outcomes and project implementation are sustainable from a climate change point of view.
- The project shall make good use of existing local know-how and so strengthen ownership and maintenance of the investment.
- During the project know-how and expertise will be transferred to the project owner in the target country in order to support proper operation and maintenance of the investment.
- Once completed, the project should use renewable energy sources if locally available.

According to the MFA the criteria used for support decisions include:

- SDGs and the objectives (including PA 2) of the Government Report on Development Policy (2016)
- Alignment with the national development plans of the receiving country's government
- Capacity of the project owner
- Capacity of the contractor
- Synergy with other Finnish development cooperation
- Assessment of environmental, social and human rights risks
- Finnish added value
- Sufficiency of the intended financing

Source: MFA Ppt "Lausuntotyöryhmän kriteerit"

There are no criteria related to gender or WEE. There is also as of yet no guidance on how tax related issues are to be taken into account.

MFA grants financial support to the project out of Finnish development cooperation funds. The support is intended to cover part of the investment procurement costs (the biggest share of the MFA support) and the interest payments on the investment credit (interest subsidy). Previously, but not anymore (at the time of finalizing this evaluation in 11/2020) it also covered part of Finnvera's guarantee fee (exceeding 6%). The credit has a maturity of 10 years, and there is no grace period for pay back.

Ownership guidance and RBM

Of the PSIs used in the Finnish development policy and cooperation, and assessed in this evaluation, PIF is the only one managed totally by the MFA itself, by the Unit for Development Finance and Private Sector Cooperation in the Department for Development Policy. (All other PSIs is are managed by an entity outside the Ministry organisation though Finnpartnership support decisions are made by the MFA. The ministry also decides on the ODA part of BEAM funding.) This naturally raises expectations regarding the quality of management and PIF's relation to the Ministry RBM.

PIF is generally guided by the above presented legislation. Detailed Guidance notes ("*Public Sector Investment Facility Guidance Notes*") were published in 2016 and updated in January 2019. There it is said that the instrument has to abide by the Finnish government's current development policy principles (including the application of a human rights and results-based approach).

The Guidance notes are well written and detailed, but since there are so far no positive financing decisions, their practical implementation is still to a large extend open (see more in details below). This increases the importance of e.g. project appraisals.

At the moment it appears that the Ministry has pretty little options or tools at its disposal if, after the financing agreement has been signed something goes awry in the project regarding e.g. its responsibility or development impacts. The Ministry can commission an evaluation of the project, and in case of aclear agreement breaches it can withdraw its financing. Such tools, however, are fairly blunt and inaccurate and give much less leverage than the various ways in which e.g. DFIs like IFC and Finnfund can influence their investee companies' performance.

Since no PIF financing decisions have so far been made, there are no PIF projects to be found in the MFA decision data files that were available for this evaluation. Consequently, there are no data on sector distribution or rating of PA priorities.

The Guidance notes and the unit responsible for PIF, however assess that PIF has PA 4, rather than PA 2 as its priority objective.

Policies and tools

Development effects and their assessment

Probably because no PIF project has not yet been approved, the MFA guidance regarding for example development effects, is still fairly generic and abstract.

In the Guidance notes it is said e.g. that project documentation shall describe the intended development impacts as well as the mechanisms proposed for monitoring their achievement based on the general principles of RBM. This includes e.g. a presenting project's outputs (in terms of goods, services, capital), immediate outcomes upon project completion and long-term impacts at least two years after completion.

Outcomes are expected to be assessed using "*a robust set of indicators and compared against targeted outcome levels and the baseline situation*". For this purpose the project documentation shall contain a description of the monitoring and evaluation system and a description of how the project proposes to report on its progress towards the targeted outcomes. "*Upon project completion the project owner shall report to MFA on the project's development impacts.*"

As written above, there are as of yet no practical tools (e.g. assessment tools or model ToCs) available or required, for the applicant to use in order to comply with the requirements. The appraisal, including suggestions for improvements of the project proposal therefore has a considerable role in ensuring the compliance. However the generic ToR for appraisals also leaves such issues fairly unspecified. Both the Guidance notes and the appraisal ToR say a lot of what the project should do, but not much about how.

Assessment and presentation of development effects is expected to be made by using OECD/DAC appraisal principles and criteria. This is understandable, in the sense that PIF is an instrument for financing public sector projects. The private entities (contractors) supplying the products or services, however, follow commercial logic. No wonder therefore, that they have had some difficulties in accommodating with the DAC logic, predominantly linked to non-commercial activities (see feedback from applicant companies). It is also to be remembered that PIF projects are technology, product or service deliveries, with the use and deployment of them being on the responsibility of the partner country entity. To what extent the supplier company is able to control the use and has access to information needed for ensuring and reporting the effects, may wary from case to case.

It appears that no ToC has been created for the PIF instrument itself. Creating one could help building project levels ToCs and/or results chains.

ESG and risk analysis, including tax, gender and human rights

What has been said above regarding development effects, their assessment and reporting can be repeated regarding ESG issues. The Guidance notes state for example that

- Projects must have completed an environmental and social impact assessment (ESIA), which is equivalent to the standards of the IFC under the World Bank Group."
- They must have no adverse human rights effects, nor may they be human rights blind based on MFA guidance notes for the implementation of a HRBA in Finnish development cooperation.
- The project documentation must include a human rights impact assessment in compliance with the UN Guiding Principles on Business and Human Rights
- The applicant company must have its own corporate social responsibility programme

How is the fulfilment of such requirements ensured appears to have been left fairly vague. For example IFC PS are a considerably demanding set of performance standards. How is the projects compliance with them to be assessed, ensured and monitored (especially when the project owner is not the Finnish contractor company but the developing country public sector entity)? Finnish SMEs, of which participation in PIF projects the MFA wishes to encourage, do not also necessarily have corporate social responsibility programmes, or knowledge and capacity to assess and monitor human rights issues.

PIF in relation to other PSIs

Being the only one funding public projects, PIF completes well the palette of other PSIs which finance or support mostly private entities. PIF finances Finnish companies' projects like BEAM and Finnpartnership (and unlike Finnfund, KUA and IFC). Its support is in the form of mixed credit, bringing together grant/concessional element and commercial financing. Expecting project contractor to have track record of "*running projects of a similar scope and scale or being otherwise able to show their experience and knowledge required to complete the project*" PIF comes close to Finnfund's and IFC's requirements, whereas Finnpartnership and BEAM support often applicants that are just at the beginning of their internationalization.

According to PIF Guidance notes the projects are encouraged to create synergies with other Finnish-financed activities. In practice there has so far been very little cooperation with the other PSIs. Linking PIF to the Institutional Cooperation Instrument (ICI) has proved to be successful in some instances, but needs long term planning and coordination between MFA's internal and external stakeholders.

Since the borrowers and project owners in PIF projects are public entities, the MFA and its embassies have potentially a much more prominent role in the PIF project origination and development than in the other PSIs' project cycles. Embassies normally have good contacts to and know well the local ministries and public sector organisations. They can open doors and facilitate matches between Finnish companies and potential project owners. Some embassies have seized the opportunity and been very active. (For example the Embassy of Finland in Vietnam has developed localized information packages for potential PIF project participants.)

In the interviews and documentation used for this evaluation, the lack of human resources as well as their finance-related knowledge and skills both at the Ministry and embassies was repeatedly pointed out as a factor hampering the cooperation of PIF with other PSIs.

Feedback from companies

In November 2019 the MFA organized a workshop on PIF with the purpose of collecting experiences and views of the instruments from both applicant companies and the Ministry staff.

Though the purpose of the instrument was generally found valid, the views of companies differed (somewhat expectedly) from the views of the MFA staff (there was of course variations inside both groups).

Companies called for some rethinking/designing. In their view it should for example be stated more clearly that one of the instrument's purposes is to support Finnish exports. The MFA participants on the other hand would have liked to see more local ownership (lack of which they thought hampered progress of many projects from a concept to a full-fledged proposal).

In a similar way the development policy goals were by companies found to be difficult to understand, and not always easy to combine with business purposes. The same applies to strict ESG compliance; for example, "requiring application of Human Rights Based Approach (HRBA) from companies is too much". There were also said to be too many minimum criteria for the instrument to serve businesses' purposes appropriately.

The MFA representatives on the other hand generally wanted to strengthen the ministry's policy guidance on the projects, and companies' ability to ensure the projects' development relevance.

There was also willingness from the MFA part to support companies in handling development-related issues.

The PIF process was criticized by many in goth groups as being long and cumbersome. Company representatives complained about obscurity and use of the selection criteria. Decisions by the MFA regarding the applications, were they positive or negative were mentioned to be difficult to interpret and understand.

Such views were confirmed by some of the interviewees for this evaluation. They reported of companies progressing fairly far in the application process without actually knowing what was expected from them regarding e.g. assessment and demonstration of responsibility and development effects.

PIF support decisions 2016–2019

The MFA commitment data does not yet include payment commitments for PIF interventions, apart from one related to support from the United Nations Office for Project Services (UNOPS) to strengthen procurement capacity of a partner organisations.

Concept notes on potential PIF projects are submitted to the MFA, which announces the yearly schedule for processing and issuing opinions on them. 21 concept notes have so far been approved to the project proposal phase (project proposal to be prepared by the project owner in a developing country). No proposal has yet been approved for financing. Only two of the approved concept notes were for projects to be carried out in a country of LIC status at the time of concept note submission.

According to the MFA, the main reason for the slow or stalled progress of projects in the PIF pipeline was the lacking or insufficient ownership by the developing country government. Another reason is the lack of funding / resources by companies themselves.

PIF portfolio in case countries

There is one project to be implemented in Kenya in the PIF pipeline (concept note approved) at the beginning of September 2020.

PSI Appendix 6: FCAI

Presentation of the instrument

Finn Church Aid Investments (FCAI) is a limited liability company 100% owned by Finn Church Aid (FCA), and NGO. In August 2018 the MFA made a decision to give a €16 million loan to the FCAI. The loan is one of the new "Development policy investments" of the MFA.

FCAI is an impact investor specialising in financing small and medium sized enterprises in developing countries and fragile states. The purpose of the MFA loan was to function as seed funding for starting the FCAI's investment operations. The FCAI intends to offer its clients long-term financing, that they otherwise have not access to.

The term of the MFA loan is 18 years. There is a grace period of 14 years, during which only interest (fixed 0.5% annually) on the loan will be paid. The principal will be paid in four instalments during the last four years of the loan term.

FCAI is the first development finance fund and impact investor initiated by an NGO in Finland. Internationally there are several similar kind entities initiated by NGOs or CSOs promoting impact investing, some of which have been operational already for a relatively long time.

Being an impact investor means that all investment decisions are evaluated and chosen based on their projected societal and environmental impact together with the expected return. In the field of impact investing, FCAI is a so called "impact first" investor (as opposed to "finance first" investors), which means it is ready to forego market rate return in exchange for societal impacts. Contrary to many other impact first investors, however the FCAI does not expect its investee companies to be social enterprises, but it invests in "normal" enterprises that strive for profit, though the operations of the investees have to generate positive development effects and be socially and environmentally responsible. The more fragile the context is, the more impact a "normal" company is seen to provide.

FCAI is based on the acknowledgment that improved livelihood and employment opportunities are a way out of poverty, and that responsible businesses have a crucial role in providing them. There is a need to supplement the traditional charitable modalities of aid with alternative models that could be used to finance those businesses. The core idea is that if people, enterprises and governments are willing to forgo money when giving donations (thus loosing donated capital and the possible return to it if invested somewhere) surely they would be willing to do the same with a chance of losing only part of the capital or getting possibly at least some return to it? The FCAI intends to mobilize such potential financing and use it for development purposes.

The FCA has several decades experience in raising donations from several sources, and it has a wide network and links with donor country governments, development aid organisations. etc. The intention of FCAI is to provide a platform through which donations and/or grants can be collected and used for impact investing. The model in itself is new, and the FCA did not have experience of or organisation for impact investing and the intended kind of business model at the time the MFA made the loan decision. The model, and the instruments and organisation to run it, therefore needed to be built from scratch.

FCAI does not give dividends from its potential earnings but invests them in new projects. It pays income tax from its operations in Finland.

Operational logic

The FCAI makes both indirect/joint (through funds) and direct investments. In direct investments it uses equity, mezzanine and loan instruments. In addition, a special role is given to TA for financed companies. For indirect investments there is no upper limit, but in direct financing the investments will be between €100,000–1 million.

At the start of its operations the FCAI has made mostly indirect investments through funds. The first direct investment was made at the beginning of 2020 (see the portfolio below).

The FCAI's operational model consists of two parts: financing and TA to the investee companies. Besides financing, the idea is to use FCA network and its human resources to provide, partly or totally on pro bono basis the investee companies (or pipeline projects) with mentoring as well as expertise and TA in e.g. business development, accounting, responsibility issues etc. Possibilities to use for example people active in the FCA's Womens' Bank for these purposes have been explored, and plans exist to provide clients with "CFO cervices". The TA element is meant to be used to a) make companies financeable and b) support them after the financing in for example business development and responsibility compliance.

The FCAI business model is very ambitious and includes a lot of challenges and risks.

In especially direct investments the intended small size and (presumably) low return targets are difficult to combine with ensuring and showing that high level of responsibility, and material development impacts are achieved. The costs (most of which are fixed) of for example responsibility compliance are considerable. Resources are needed for the acquisition and maintaining the necessary in-house ESG expertise and capacity; for the development policies and tools; and for their deployment during the investment cycle (from initial assessment and due diligence to negotiations, monitoring, reporting and exiting).

FCAI's investments are also planned to be made in SME companies presumably at early stages of business development/expansion, with often little know-how and skills, little own financial and other resources and collateral, incomplete financial documentation, and wanting reporting and planning capacity. They need support in many ways and the FCAI intends to support them, which is not cost-free. In addition come e.g. counterparty risks, high country risks of operating in developing countries, political risks, currency risks, etc.

In order to tackle this kind of challenges, for example the bilateral DFIs normally work with much bigger investments, with much more mature investees, and with terms close to market practice. For example, Finnfund seldom makes investments smaller than €1 million– partly exactly because of the need to cover high (mostly fixed) compliance costs. DFIs also have the expertise for short term risk management and portfolios large enough for longer-term asset-liability management. Still risks sometimes realize, and the institutions struggle with profitability.

In the FCAI model a large part of above-mentioned costs and risks are planned to be covered or mitigated using resources from financial and skills donations. For example part of the costs related to deal origination, business development support and ESG compliance could be covered by inputs from FCA country offices and staff, or coaches /mentors working on pro-bono basis (an "Advisory Group" was established for these purposes already in 2018) . Cost of refinancing would be reduced by tapping on donations and/or other financing with very low return expectations, coming from individuals, institutional investors, donor countries/agencies and similar.

At the beginning of operations funding has come from the FCA and MFA. For example the FCAI staff is now employed by the FCA, not the company itself.

Challenges for the FCAI are posed by the facts that:

- Collecting donations or investments for the intended purpose would in fact require establishing an Alternative Investment Fund (AIF). Such funds and their managers (AIFM) are overseen by Finnish Financial Supervisory Authority (FIN-FSA) and the regulation on them is strict and demanding. AIFs are normally marketed to professional customers. If an AIF is marketed to non-professional customers (as would probably be in the case of FCAI) the manager would, as a rule, have to have an authorisation as referred to in the Act on Alternative Investment Fund Managers, or a similar authorisation granted in another European Economic Area (EEA) state.
- Skills and expertise needed for financing differ markedly from the ones gathered through NGO operations, which limits the usability of the FCA staff.
- It is unclear, how the model fits with the state support legislation.
- In case FCAI would be able to raise funds from foreign investors, they could face double taxation, first in the target country of the investment and then when repatriating returns from Finland. Many institutions investing in developing countries use corporate structures and domiciles that help avoiding double taxation, but that have been criticized by many CSOs (e.g. holding companies in OFCs like Mauritius). It is not yet clear what will be the FCAI's policy regarding this challenge.

Eligibility for support

The companies financed by FCAI have to show potential for commercial profitability and positive development effects, and they have to commit to responsible business models.

There are no strict geographic limitations to investments, but the focus of direct financing will at least at the beginning of operations be in Uganda and Somalia. The FCA has offices and programmes in both countries. The prospective investee companies must have at least two years of operations behind them. Specific emphasis will be given to the companies of female and young entrepreneurs.

There is no Finnish interest requirement, but the FCAI can also invest in Finnish enterprise's local subsidiaries. The sector emphasis is on Farming, Agribusiness, Fisheries, Livestock, Poultry, Manufacturing and Renewable Energy, due to the normally large overall employment effects of companies in these fields.

Ownership guidance and RBM

The guidance given to the FCAI by the MFA is to a large extent based on the proposal on the FCAI which the FCA made to the MFA in 2018, and on agreement on the loan (the loan itself was technically given by the State Treasury). It is to be noted, that the MFA support really is in a form of a loan, and the conditions (regarding e.g. implementation of new policies, or reporting) of a loan normally cannot necessarily be changed after signing the agreement and disbursing the loan sum, unless the agreement allows this. This has implications for e.g. implementation requirements of the MFA's Taxation for Development Action plan.

In the proposal the FCA committed itself to generate measurable outcomes, but the selection of those outcomes to be followed as well as the assessment and reporting frameworks was to be established and taken in use only later. This applies also to the responsibility issues, safeguarding measures, and generally taken to all tools and processes needed for a complete investment cycle.

The FCAI corporate governance includes a shareholders meeting; a board of directors with a representative of the MFA; a 4-member investment committee consisting of external experts; and the management.

The number of current staff is 7 (CEO, Chief Busines Development Officer, Chief Operational Officer, a local finance manager and trainee in Uganda and two analysts in Somalia).

The staff is currently employed by the FCA. That the management and staff of a limited liability company is not contracted by the company, but by the main owner (in this case FCA) is from the corporate governance perspective a somewhat unusual arrangement. The FCA charges a management fee from the FCAI, with a discount for the four first years.

Policies and tools

As stated above, the FCAI had to develop policies and tools for its operations practically from scratch after the loan agreement was signed.

Development effects and their assessment

Very little was specified in the loan agreement on the development effect assessment and reporting. In the original proposal and in the loan agreement the FCAI committed itself to annual impact reporting, without specifications as to its structure or form, to the pursued impacts, their indicators and targets.

In the first impact report (for 2019) a ToC and Logframe or the FCAI are presented. Primary SDGs that the company sees itself contributing to are 1 (no poverty), 8 (decent work and economic growth) and 17 (partnerships for the goals), the secondary ones being 5 (gender equality) and 9 (industry, innovation and infrastructure).

An “Impact measurement user guide” was created in 2020. The proposed elements and basic concepts described in the document follow the development effects and impact analysis practices of international DFIs (e.g. IFC). The proposed indicators will be taken for example from IIRIS + and HIPSO (Harmonized Indicators for Private Sector Operations.)

The four core areas of impacts are seen to be:

1. Inclusive job creation
2. Skills Advancement and capacity building.
3. Better accesses to basic services through two-directions “additional TAX paid by the investee companies” and “direct investments in basic-service providers like solar-power and waste management companies”
4. Responsible and efficient business conduct of the investee-companies and across their value-chains.

The issue of how the assessment and measurement will be made is in principle clear, but yet to be put in practice. In direct investments reference is made to “widely accepted guidelines, practices and metrics in this field” such as iris, the Global Reporting Initiative (GRI), Sustainability Accounting Standards Board (SASB) materiality map; OECD Responsible business conduct for institutional investors; and IFC Operating Principles for Impact Management.

In joint investments the assessment and reporting are agreed with the fund manager, but the reporting has to include data at least on:

1. Employment & wages (especially among youth and women)
2. Tax revenue and payment to government / Potential impact on basic services
3. Capacity building (provided training, ESG improvement, CSR, and access to foreign markets/export).
4. Domestic suppliers, out-growers or smallholder farmers (payment, volume, total number, services provided etc.)

Regarding the metrics on impacts, the FCAI will use: 1. Financial Metrics associated with the economic impact; 2. Sustainability metrics associated with the social & Environmental Impact

In addition, indicators measuring e.g. gender equality, abolishment of hunger, and promotion of innovations should also be considered when applicable. Indicators will be tailored specifically for each investment.

The FCAI itself will report its impact quarterly. A more detailed impact report will be written annually, including data on:

1. Employment (nr. of jobs created – full time/part time)
2. Women participation (nr of female employees, business owners, executive managers)
3. Number of financed SMEs (SME's access to finance)
4. Tax revenue and payments to government
5. Capacity building (e.g. nr. of provided training and ESG improvement activities)
6. Total mobilized funding during the reporting period for investing and TA activities

Additionally, for its direct investments, FCAI will be also reporting on:

1. Number of households/companies with new/improved access to energy, clean water sanitation or waste management services.
2. Payment to local suppliers (domestic producers, out-growers or smallholder farmers)
3. Number of SMEs getting access to foreign market(s)/export[36]
4. Total Revenue (SME's turnover)
5. Change in earnings before interest, taxes, and amortisation (EBITA)[37]
6. Net income (profitability)

The first impact report (on the year 2019) contains data (from the joint investments, i.e. funds) on:

- Total invested amount
- Total investments in MFIs
- SMEs financed
- Jobs created
- Jobs created (youth and women)
- Payments to government (Yield Fund)
- Business-Development-Support' (BDS) Interventions delivered to SMEs
- Smallholder farmers supported
- Nr of investments in clean energy

Regarding size of the BOMF in which FCAI has made an appr. €9.2 million investments, it is to be noted that no reporting on the 'key Impact Indicators' will be presented. This choice is "*based on the size of FCAI's investment in the fund and the avoidance of 'Impact Washing'. The investment made does not bring significant financial additionality to the BOMF from the management perspective*." The BOMF has over $2 billion AUM (Assets Under Management).

ESG and risk analysis, including tax, gender and human rights

The FCAI produced a draft ESGMS policy paper already in 2018. ESG Toolkit to identify risks and opportunities should be available in 2020.

36 IFC: Interpretation Note on Small and Medium Enterprises and Environmental and Social Risk Management.
37 Presumably EBITDA; Earnings before interests, taxes, depreciation and amortization.

When it comes to direct investments, ESG issues are going to be screened and categorized according to their risk level, and then monitored and treated in the way correspondent to the risk classification. The process is in alignment with international DFI practices (using the guidelines on application of the IFC Performance for SME).

In addition to IFC, the guidance and tools provided by for example CDC Group's (the former Commonwealth Development Corporation, the bilateral DFI of the United Kingdom) will be used. The FCAI also states it will comply with the host country legislation, ILO Core Labor Conventions, UN Declaration of Human Rights and support the principles of the United Nations Global Compact. At least at the beginning the FCAI intends to participate in the IFC PS category A investments only as a co-investor.

In joint investments the FCAI will trust in fund managers' ESGMSs, but require, as a condition for its participation:

1. Full compliance with IFC exclusion list or similar and acting as per IFC's interpretation note on financial intermediaries
2. Adherence to ESG International Standards such as IFC Performance Standards No. 1 and relevant requirements of PS No. 2, or equivalent standards.

The FCAI has no specific tax, human rights or gender/WEE policy. An overall risk management policy is being prepared.

The FCAI ESGMS is being piloted. In practise much of what the company plans in ESG and responsibility area is yet to be realized, because operations especially in direct investments are still at an early phase.

To be noted is that unlike many DFIs the FCAI appears not to plan a very strong conditioning financing (e.g. disbursements) with responsibility compliance. In case the investee/borrower company fails to comply with for example ESG requirements agreed on, the main option is to support and encourage it in compliance. If all conditions are complied with, the FCAI can waive its fees.

FCAI in relation to other PSIs

There has been cooperation between the FCAI and Finnpartnership in Somalia. In 2019, FCAI initiated a project to conduct a feasibility and market study in Somalia, to which it received Finnpartnership support. The aim of the programme was to design and map out the investment modality and structure in the country. As a result, the FCAI signed a Memorandum of Understanding (MOU) with the United States Agency for International Development (USAID) funded GEEL (Growth, Enterprise, Employment & Livelihoods Project) to jointly identify investible and scalable SMEs, and provide them TA. The Finnpartnership project also led to discussions with the Islamic Development Bank (IsDB) to further develop Islamic Financial-Instruments for Somali SMEs.

Though the FCAI and Finnfund both operate in the field of impact investing in emerging markets, there is little actual cooperation between the companies in addition to general discussions and exchange of information. The operational models and the scales of investments appear to differ too much from each other.

There was no evidence available for this evaluation that would have indicated cooperation of the FCAI with Finnish embassies for example in Africa, or the BEAM programme.

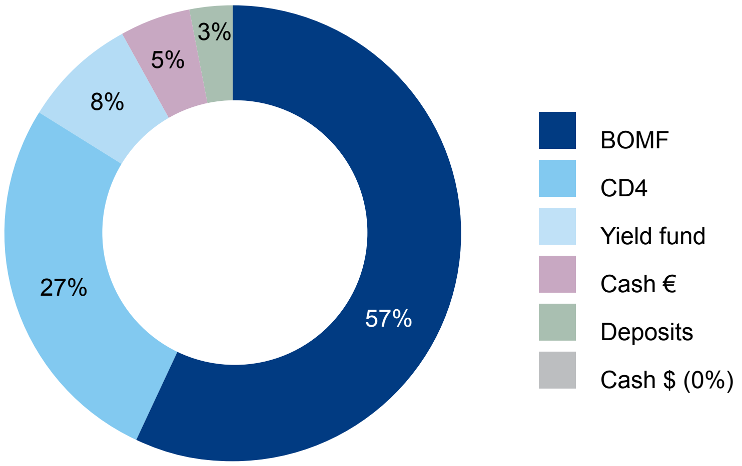
When it comes to other partnerships, FCAI has naturally worked closely with the C4D fund and the Yield Uganda in which it has invested. The cooperation includes e.g. knowledge sharing and pipeline-building where possible.

The FCAI also works with MIGA, the World Bank Group's guarantee agency.

FCAI portfolio

By the end of 2019 the majority of the FCAI financial resources (i.e. of the MFA loan) were invested in the BlueOrchard Microfinance Fund (BOMF) mostly for liquidity management purposes (see Figure 12). BOMF is a fixed-income fund, investing in microfinance institutions in emerging and frontier markets, with systematic currency hedging. This allows FCAI to get fairly stable financial returns while simultaneously investing in financial inclusion. Positioning a large share of financial resources for a limited period of time in this kind of fund is understandable, bearing in mind the time FCAI will need to build up its organization, create a pipeline and launch the actual investment operations. At the same time such liquidity management investments of relatively low risk (because of the underlying finance and risk mitigation structure of the investment) cannot be considered to create as much e.g. financial additionality as FCAI strives for.

Figure 12 FCAI portfolio allocation 31.12.2019



Source: FCA Investments Impact report 2019

The **Yield Uganda** fund is a €20 million fund in Uganda that specialises in the agri-sector investments. It provides tailored financial solutions (using equity, mezzanine and debt) to finance SMEs in its focus sector. The FCAI made a €4 million equity commitment in the fund in 2019. FCAI's co-investors include the International Fund for Agricultural Development (IFAD), the Uganda national social security fund (NSSF) and Soros Economic Development Fund (SEDF).

FCAI has also committed to invest appr. €7.5 million in the **Capital 4 Development** (C4D) Asia Fund. The US$30 million fund finances SMEs that promises positive social-economic Impact for the underserved communities in Asian emerging economies, primarily in India, Indonesia, and the Philippines. The C4D was initiated by FCA's Dutch sister organisation ICCO. At the beginning of 2020 FCAI made its first investment, in an egg production company in Uganda.

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