

## The activities of the Finnish Fund for Industrial Development Cooperation Ltd. (Finnfund)

The Finnish Fund for Industrial Development Cooperation Ltd. (Finnfund) is a company that operates in the administrative sector of the Ministry for Foreign Affairs and is steered by the ministry. Its task is to finance development cooperation projects in the private sector according to Finland's development policy objectives. At the end of 2009 the Finnish state owned 87.1 per cent of the company's shares. Other shareholders are Finnvera Plc (12.8%) and the Confederation of Finnish Industries (0.1%). The company's balance sheet total at 31 December 2009 was 250 million euros. In 2008–2010 the company's share capital has been increased by 45 million euros, while a corresponding amount has been subtracted from actual cooperation development funds. The intention is to increase the company's share capital by an additional 15 million euros in 2011 in the same way.

The audit examined the ownership steering of Finnfund and how the company takes the Ministry for Foreign Affairs' steering and the state's development policy objectives into account in its activities. With regard to project activities the audit examined the criteria for allocating funds, the supervision of projects and the results achieved in projects.

Finnfund has achieved the broad objectives that have been set for it in legislation. The company's operating strategy supports the Government Programme and the achievement of the objectives in the Government's development policy programme. Finnfund's activities make a significant contribution in achieving Finland's development policy objectives, and its activities could be given more attention in preparing the Government's next development policy programme.

In recent years Finnfund has strongly developed the preparation, evaluation and supervision of projects and reporting on projects. The preparation of projects was thorough and documents contained clear evaluations of projects and justifications for financing. Pro-

jects' risks and impacts on development were evaluated from different perspectives in a comprehensive manner. Reporting focused on the impacts of projects on development. In future reporting could shed more light on the materialization of risks analysed in the preparation stage.

Finnfund pays attention to Finland's development policy objectives in its financing activities. The most important objective of Finland's development policy is to eliminate poverty in an economically, socially and ecologically sustainable manner. In the preparation of projects and in financed projects this had been taken into consideration by evaluating the partner country's social stability, preparing broad and thorough environmental analyses and evaluating projects' economic indicators. In the opinion of the National Audit Office, it is very important for the effectiveness of activities that Finnfund has financed only projects it has deemed to be profitable.

In its activities Finnfund has shifted the focus of financing to poor countries and thus promoted the achievement of the main objective of Finland's development policy. Finnfund has not placed special emphasis on Finland's long-term partners in bilateral development cooperation, however. The National Audit Office considers that, as far as opportunities and demand for financing allow, financing should be directed more to Finland's long-term partners in development cooperation and the least developed countries on the DAC list. The National Audit Office also considers that Finnfund should make a distinction between the shares of low-income countries and middle-income countries on the DAC list in its reporting.

Finnfund has been very successful in rearranging financing to ensure Finnfund's and consequently the state's receivables in situations in which it has not been possible to implement an exit plan prepared when the financing decision was made, for some reason. Finnfund's reductions in the value of investments have been moderate in 2005–2009. They have also been small compared to Finnfund's counterparts in Norway, Sweden and Denmark.

The ownership steering of Finnfund has contained gaps, nor has the Government or the Ministry for Foreign Affairs set objectives for the company's activities. The ownership steering of Finnfund by the Ministry for Foreign Affairs was not in line with the Government resolution on state ownership policy at the time of the audit.

The ministry implemented ownership steering through its representatives on Finnfund's Board of Directors at the time of the audit. During the audit the Ministry for Foreign Affairs said that it had taken measures to change its ownership steering as required by the Government resolution. The National Audit Office considers the measures that have been taken or planned by the ministry to correct the ownership steering of the company good and adequate.

Finnfund's activities and the results achieved by these activities have not been described in the Report on the Final Central Government Accounts, and the information that Parliament has received on the company's activities has been meagre. In view of Finnfund's task as an implementer of Finland's development policy objectives and the increase in share capital that the company has received in 2008–2010 together with the planned increase in 2011, totalling 60 million euros in all, the Report on the Final Central Government Accounts should describe the company's activities and results along with other development cooperation.