#### Sustainability Policy / Preliminary DRAFT for stakeholder discussions

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# Introduction

Finnfund’s mission is to build a sustainable world by investing in responsible businesses in developing countries. To meet this mission, every Finnfund investment must meet three criteria: economic profitability, sustainability and development impact. Each investment is assessed against these criteria before an investment decision is made and is subsequently monitored throughout Finnfund’s involvement.

Responsible business practices add value to the investment and contribute to creating positive impacts. Our [Strategy](https://www.finnfund.fi/en/finnfund/strategy/), which builds on steering from the Ministry for Foreign Affairs of Finland, guides us to increase investments in projects specifically targeting positive environmental, social and other development impacts, which contribute to achieving the UN Sustainable Development Goals (SDGs). We work together with our clients to raise their awareness and commitment and to support them in improving their environmental and social management and performance.

Sustainability is a joint effort of Finnfund, its clients and third parties such as co-financiers. We work with like-minded investors to build leverage and maximize impact and sustainability in our investments. Finnfund is a member of the Association of European Development Finance Institutions (EDFI). Finnfund has endorsed theEDFI [Principles for Responsible Financing of Sustainable Development](https://www.edfi.eu/wp/wp-content/uploads/2017/09/EDFI-Responsible-Financing-SDG_Principles_final_190515.pdf) (2019) and aligned its own practices as well as client requirements with the jointly agreed harmonized minimum E&S requirements applicable in EDFI co-investments, including the [Exclusion list](https://www.edfi.eu/wp/wp-content/uploads/2017/10/EDFI-Exclusion-List.pdf).

Finnfund is also a signatory to the International Finance Cooperation’s (IFC) [Operating Principles for Impact Management](https://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Impact-investing/Overview/), which support the development of the impact investing industry by establishing a common discipline around the management of investments for impact.

# Purpose and scope

This Policy outlines Finnfund’s commitment to sustainable development and the responsible business practices applicable to Finnfund’s own operations as well as its investments, both direct (equity and loans) and indirect (i.e. through private equity funds and financial institutions).

This overarching Sustainability Policy covers environmental, social and governance issues and development impact. To complement this policy, Finnfund also has thematic statements, e.g. on human rights and gender, as well as internal guidelines and tools which support the implementation of this policy.

This policy first describes the international commitments and three pillars of sustainability (environmental, social and governance, “ESG”) for Finnfund’s investments, and then discusses the same for Finnfund’s own operations.

# Pillars of sustainability in Finnfund’s investments

## International sustainability framework

In all of its investments Finnfund requires its clients to comply with applicable host country laws and regulations as well as the relevant international obligations.

In addition to the local legal requirements, all Finnfund investments associated with medium to high inherent environmental and social risks and adverse impacts are, over time, required to achieve compliance with international standards on environmental and social management and performance. The project and the associated impacts and risks define the standards to be applied, but the principal environmental and social (“E&S”) risk management framework adopted consist of the [IFC Performance Standards on Environmental and Social Sustainability](https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/policies-standards/performance-standards) and the associated World Bank Group general and industry-specific [Environmental, Health and Safety Guidelines](https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/policies-standards/ehs-guidelines). The IFC Performance Standards (“PS”) address eight topics: Assessment and Management of Environmental and Social Risks and Impacts (PS1), Labor and Working Conditions (PS2), Resource Efficiency and Pollution Prevention (PS3), Community Health, Safety, and Security (PS4), Land Acquisition and Involuntary Resettlement (PS5), Biodiversity Conservation and Sustainable Management of Living Natural Resources (PS6), Indigenous Peoples (PS7), Cultural Heritage (PS8).

The Performance Standards’ approach is risk-, management- and outcome-based, with specific requirements to help clients achieve the outcomes. The necessary means are adjusted to a level appropriate to the nature and scale of the project and commensurate with the environmental and social risks and/or impacts.

## Environmental sustainability

### Climate change

Finnfund contributes to international efforts to combat climate change through investing in projects that reduce and avoid greenhouse gas emissions, sequester carbon, and help to adapt to climate change. Hence, our strategy emphasizes climate projects, i.e. projects in sustainable forestry, renewable energy and projects improving energy and material efficiency. Aligned with the UN Sustainable Development Goals 13, ‘Climate Action’ and 7, ‘Affordable and Clean Energy’, Finnfund is committed to continue investing in climate projects and publicly reporting on the investments. Finnfund does not finance coal power projects.

Together with external experts, we have developed internal tools for calculating the carbon emissions and/or sequestration for both the investment portfolio level and for individual investments in certain focus sectors. These tools have been developed in line with international best practices, including the IPCC and Greenhouse Gas Protocol guidelines and the International Financial Institution (IFI) harmonised approach to Greenhouse Gas Accounting. Finnfund collaborates with other development financiers to further develop and harmonize these tools.

Finnfund acknowledges the risks and adverse impacts that climate change represents for our projects and across the investment portfolio. These risks, including extreme weather patterns and rising global temperatures, require careful consideration in our investment process.

### Natural resources and biodiversity protection

Finnfund’s focus sectors - forestry, agriculture and renewable energy - depend on and potentially have significant impacts on natural resources and biodiversity. We are committed to ensuring that our investments are sustainably designed and implemented to protect biodiversity and increase resilience against climate change; to maintain and enhance ecosystem services; to increase the capacity of forests to store carbon; to protect water resources and access to water through sustainable water management.

Finnfund recognizes that forests play a key role in combatting climate change and in protecting global biodiversity. Global population growth, economic growth and changing consumption patterns are increasing wood consumption and place a massive strain on forest resources.

Finnfund has a long history of supporting sustainable forest management companies and wood processing industries. We believe not only that sustainably managed forest plantations respond to the rapidly growing wood demand, but also that they remain among the most effective strategies for climate change mitigation. Well located, designed and managed forest plantations can reduce the pressure on natural forests. Plantation forestry companies, especially under forest certification schemes, can also conserve and restore natural habitats and biodiversity.

Finnfund requires that its forestry investments comply with internationally recognized standards of sustainable forestry, such as the Forest Stewardship Council (FSC) principles and criteria. We are committed to ensure that the capacity of natural forests to deliver ecosystem services, store carbon and conserve biodiversity is protected in our investments.

Increased and more sustainable agricultural production, livestock production and aquaculture are key factors in achieving many of the UN Sustainable Development Goals, particularly goals 2 ‘Zero Hunger’ and 1 ‘No Poverty’, but are also linked to many others, such as goal 14 ‘Life below water’ and 15 ‘Life on Land’. On the other hand, land conversion for agriculture and livestock production are one of the main drivers for deforestation globally and a major source of carbon emissions. Finnfund is committed to provide its support to sustainable agricultural projects which contribute to the SDGs and do not endanger natural resources, ecosystem services or biodiversity, according to the requirements of international standards.

Finnfund’s investments are required to comply with the IFC Performance Standard 6 to ensure biodiversity conservation and the sustainable management of living natural resources. Furthermore, meeting the requirements of international standards on forestry and agriculture such as the Forest Stewardship Council (FSC), Roundtable on Sustainable Palm Oil (RSPO), and The Worldwide Standard for Good Agricultural Practices (Global G.A.P.) is required as relevant.

### Pollution prevention and energy efficiency

Finnfund is committed to promoting cleaner production and resource efficiency in the consumption of energy, water as well as other resources and material inputs. This commitment is aligned with the UN Sustainable Development Goals 9 ‘Industry Innovation and Infrastructure’, 12 ‘Responsible Consumption and Production’, and 7 ‘Affordable and clean energy’.

During a project’s life cycle, Finnfund’s clients are required to consider ambient conditions and apply technically and financially feasible resource efficiency and pollution prevention principles and techniques. The sustainable production techniques selected must be suited to avoid, or where avoidance is not possible, minimize adverse impacts on human health and the environment.

The principles and techniques applied will be tailored to the hazards and risks associated with the project and consistent with good international industry practice, as reflected in various internationally recognized sources, including the World Bank Group Environmental, Health and Safety Guidelines.

## Social sustainability

### Human rights

Finnfund invests in challenging operating contexts and is increasingly encouraged to engage more in fragile and post-conflict countries, where human rights challenges may be numerous. We hold human rights in high regard and conduct our business with respect for internationally recognized human rights as guided by this policy and [Finnfund’s Human Rights Statement](https://www.finnfund.fi/wp-content/uploads/2019/01/Finnfund-Human-Rights-Statement_Final-ENG_230119.pdf). Finnfund endeavours to actively and continuously identify, avoid, mitigate and manage potential and actual adverse human rights impacts in its investments by using the UN Guiding Principles for Business and Human Rights framework and requires all its clients and partners to respect human rights in their own operations and in their supply chains.

Finnfund develops and implements tools and procedures as well as adequate capacity and expertise in order to perform its human rights due diligence and monitoring. We also strive to increase our clients’ awareness and capacity in safeguarding human rights.

### Labour

‘Decent work and economic growth’ is one of the UN Sustainable Development Goals and a key outcome which we aim for in our investments. A constructive relationship between workers and management, and fair and safe working conditions and working environment improve the efficiency and profitability of businesses. Decent work means that labour rights and employment terms and conditions comply with the local legislation and with the ILO core labour standards which cover the elimination of child labour, forced labour and discrimination in the workplace, and promotion of employees’ freedom of association and the right to collective bargaining. Decent work also covers working conditions and terms of employment (incl. wages), gender equality and equal opportunities, privacy, occupational health and safety, grievance mechanisms and worker accommodation. To ensure that our investments offer decent working opportunities and conditions, we require compliance with the ILO core labour standards, the IFC Performance Standard 2 on Labor and Working Conditions and when appropriate, with international initiatives and certification schemes such as Social Accountability International’s SA8000.

### Land use and land use change

Projects that require significant tracts of land and/or involve land use change may have major impacts, both negative and positive, on people and their livelihoods, access to resources and ecosystem services. We recognize that many of the sectors we invest in, such as agriculture, forestry, and renewable energy are sensitive in this regard and may involve impacts and risks to human rights, land tenure and resource rights, livelihoods and indigenous peoples’ rights. Finnfund is committed to ensure that these impacts and risks are properly identified, assessed and mitigated as guided by the applicable international standards and conventions. A diligent informed consultation and participation process, with due consideration of vulnerable groups, must precede any land-based investment in order to ensure information sharing, participation and inclusiveness in our investments.

Finnfund strives to avoid, or when avoidance is not possible, to minimize any project-related resettlement. Where physical or economic displacement cannot be avoided, the client is expected to carry out possible relocations or livelihood restoration in line with the requirements of international standards, such as IFC Performance Standard 5, and other best practices.

### Gender

The promotion of the rights of women and girls is a long-term priority of the Finnish development policy and one of the key objectives of the UN Sustainable Development Goals (5 ‘Gender Equality’). As outlined in Finnfund’s [Gender Statement](https://www.finnfund.fi/wp-content/uploads/2019/04/Finnfund_Gender-Statement_29-March-2019.pdf), we see the right of women and girls to equal treatment not only as an integral human rights issue, but also as a fundamental precondition for the peaceful development of societies and opportunities for future generations to live free from poverty. Balancing the gender gap is also integral to achieving other development goals, such as those relating to health, education and better nutrition.

Finnfund, together with other development financiers, is committed to increase the amount of capital that is directed towards investments promoting gender equality and supporting women's economic empowerment. We are actively involved in international development and participate in international initiatives for promoting gender equality and women’s status and rights in development financing.

Finnfund recognizes that its role in promoting gender equality is particularly significant in its investment activities, which often entail promoting the status and rights of women as members of their working communities, local communities, and as consumers of products and services.

## Governance

### Corporate governance

Corporate governance is the system of rules, practices, and processes by which a company is directed and controlled. Corporate governance essentially involves balancing the interests of a company's many stakeholders.

Good corporate governance is a precondition for the achievement of sustainability in business and long-term economic development. Finnfund promotes good corporate governance in our investments. Together with 35 development financiers, Finnfund signed the [Corporate Governance Development Framework](http://cgdevelopmentframework.com/cg-development-framework/) (2015) to address the governance risks and opportunities in our operations. The Framework is based on IFC corporate governance assessment methodology and it is specifically developed for development finance. The signatories undertake to integrate corporate governance into their investment operations, provide training and report on the implementation.

During the due diligence phase, Finnfund uses corporate governance screening tools to assess the maturity of the clients’ governance structures and systems. Finnfund promotes good corporate governance for example by nominating board members and through support to its clients and partners in improving their corporate governance culture and practices. Finnfund organises regular networking meetings and trainings for the board members it has nominated in its investee companies.

### Corruption and anti-money laundering

Corruption is a major barrier to sustainable development and poverty reduction, and prevalent in the high risk-environments in which Finnfund operates. Finland has incorporated all central international instruments against corruption in the national legislation, including the UN Convention Against Corruption and the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions.

Finnfund maintains a zero-tolerance policy on corruption. Our investment policies and procedures require diligent checks on prospective clients (e.g. ‘know-your customer’ procedures, including linkages to politically exposed persons), striving to ensure that money-laundering or financing of terrorism does not occur in conjunction with our investments. Finnfund applies enhanced due diligence checks when operating in high-risk third countries identified by the European Commission. Anti-money laundering, anti-corruption and anti-terrorism provisions are included in financing agreements with our clients.

### Tax planning and payments

Finnfund’s mission is to promote economic and social development in developing countries. For this to take place, target countries need tax revenue and payments of other fees. Our [Tax policy](https://www.finnfund.fi/wp-content/uploads/2018/01/Tax-Policy_ENG.pdf) describes the principles and practices to assess and promote the tax responsibility of our investments. The Tax policy is aligned with the [EDFI Principles on responsible tax](https://www.edfi.eu/wp/wp-content/uploads/2018/05/EDFI-Responsible-Tax-Principles_Final-180509.pdf) and requires that Finnfund’s clients act responsibly with regard to taxation and comply with the local tax legislation.

Finland has committed to the goals of the OECD’s Base Erosion and Profit Shifting (BEPS) project to eliminate profit shifting, which erodes the tax base, and non-taxation due to asymmetry of tax regimes. Through its operations, Finnfund supports the development of international tax regulation and complies with current legislation and the guidelines issued by the Government of Finland. Finnfund requires that the companies it finances act responsibly and transparently in matters related to taxation and encourages them to maintain a tax policy that is disclosed to the public. Finnfund does not accept aggressive tax planning or allow its investee companies to engage in aggressive tax planning.

# Operational implementation in investments

Finnfund operates responsibly and with responsible partners. Companies financed by Finnfund must commit to Finnfund’s sustainability requirements. Finnfund focuses on the key ESG impacts, benefits, risks and opportunities relevant for each project. The higher the risks and expected impacts are, the more stringent the requirements become. We actively work with and monitor our investee companies and ensure that action is taken if discrepancies are found between commitments and reality.

Environmental sustainability, social responsibility and good governance are integrated in all phases of the investment process, from the identification of potential investments, to financing and exit.

Finnfund has developed specific procedures for environmental and social due diligence and management as well as corporate governance and corruption matters. All these are integrated into the investment process and codified in our internal guidelines and handbooks. Different procedures are applied for direct and indirect investments as well as for different financing instruments.

Finnfund has designated experts and teams working in environmental, social and governance topics and on development impacts. Finnfund’s experts continuously develop their internal capacities, policies and tools for ESG and impact, and assess and monitor the project and portfolio risks and impacts. Internal trainings are organised on these topics.

## Investment process and mechanisms

### Screening

Screening is the first step of the investment process. The purpose of the ESG screening is to identify and categorise potential environmental, social, governance and human rights risks and impacts, as well as the key development impact projections, considering the scope and context of the project, company or activity to be financed. The ESG screening provides input into the clearance-in-principle decision and defines the focus of the ESG Due Diligence. Projects are categorized based on their potential environmental and social risks and adverse impacts in line with the EDFI harmonized criteria.


### Due Diligence

From the E&S perspective, due diligence assesses the key risks and potential adverse impacts of the project, the level of compliance with the applicable local and international requirements and defines the applicable mitigation measures. Also, an assessment of the project’s expected development impacts is undertaken. For each investment, the degree of detail of the due diligence assessments and the level of requirements imposed are determined by the nature and scale of the project and are commensurate with the level of associated environmental and social risks and impacts.

For direct investments, the environmental and social due diligence focuses on appraising the project against the applicable standards (e.g. the eight IFC Performance Standards), with particular consideration of the country context and the relevant human rights aspects. For private equity funds and financial institutions, the focus of the environmental and social due diligence is on the adequacy of the fund’s or financial institution’s environmental and social management system to manage E&S risks in their portfolio. Compliance with relevant international standards for financial institutions, such as the Client Protection Principles, is required from investees as applicable.

Throughout the due diligence process and thereafter we guide and support our investee companies in meeting the applicable requirements in and improving their ESG management and performance.

On environmental and social matters Finnfund often introduces a project-specific Environmental and Social Action Plan (ESAP), based on gaps identified during the environmental and social due diligence. The ESAP outlines the necessary mitigation actions and timelines for closing the identified compliance and performance gaps. The ESAP, together with other relevant ESG clauses, is included in the financing agreements and monitored throughout the project implementation.

On governance, Finnfund conducts corporate governance assessments and tax analyses and incorporates relevant clauses and monitoring requirements in the financing agreements.

### Ownership and exit

Finnfund continues engagement in the projects as a shareholder or lender following the signing of financing agreements. We support our clients in meeting the requirements in their Environmental and Social Action Plans (ESAP) and monitor compliance through regular communications and on monitoring visits carried out by our own staff or external experts. We also require our clients to submit regular reporting on their environmental and social performance and impact indicators. As a shareholder, Finnfund aims to promote all aspects of sustainability in the investee companies through directors or advisory committee members appointed by Finnfund.

Finnfund actively supports clients facing unforeseen challenges during the project implementation. At the time of an exit we endeavour to ensure that the business continues in a sustainable and responsible manner.

## Measuring impact

Finnfund assesses and monitors development impacts of its investments throughout the investment life cycle. The basis for development impact assessments are sector-specific theories of change, which describe the potential of the investment to address major development challenges and contribute to the UN Sustainable Development Goals. Development impacts are assessed on three different levels: direct impacts of the business operations, indirect development impacts, and wider impacts on society. Companies report to Finnfund annually on indicators measuring direct impacts, including improvements in their environmental and social practices. Indirect and wider impacts are captured through separate surveys, evaluations and modelling.

## Transparency and stakeholder engagement

Finnfund believes that stakeholder engagement is the basis for building strong, constructive and responsive relationships that are essential for the successful management of a project’s E&S impacts and risks.

Stakeholder engagement is an ongoing process and therefore we require our clients to actively engage with their stakeholders in all project phases, including planning, implementation and monitoring. Requirements for stakeholder engagement vary depending on the project size, scope and impacts, but compliance with host country obligations as well as applicable international standards is required. In specific circumstances, in which indigenous peoples are at risk of being adversely affected by a project, the client may be required to obtain their Free, Prior and Informed Consent (FPIC) prior to proceeding with the project.

Finnfund is committed to promote and require accountability and transparency in business operations, as well as to report and disclose relevant information for project stakeholders. We require our investees to establish and maintain operational level grievance mechanisms, accessible to affected communities and other stakeholders. Effective grievance mechanisms provide a channel for the communities and other stakeholders to voice their concerns and enables investees to address and resolve any disputes and grievances arising from their activities in a systematic manner.

# Operational implementation in Finnfund’s own operations

Finnfund is committed to integrating sustainability considerations in its own operations at its office in Helsinki and everywhere the Finnfund employees work. Finnfund’s operations in Helsinki are subject to Finnish laws and regulations.

## Environmental

Finnfund has obtained WWF Green Office certification for the management of the environmental aspects of its own operations. We aim to reduce our electricity consumption and waste generation and are committed to increase recycling of reusable materials in the office. We also encourage and financially support our staff to use public transport for commuting to work. We calculate the carbon

impacts of our own business operations and continuously develop our IT solutions to enable decreasing the amount of business travel. We are also looking for optimal ways to compensate carbon emissions from Finnfund business travel.

## Social

Finnfund is committed to maintain a healthy and safe environment for its employees. Finnfund assesses staff occupational health and work satisfaction through regular surveys and assessments.

We are committed to promote equal opportunities in our organisation and to achieve this, we implement our equal opportunities plan. We aim to identify and eliminate structures that create and sustain inequalities, create equal working conditions and opportunities (e.g. salaries), and ensure a working environment that is free of harassment and safe for everyone.

We take care of our staff with comprehensive health services and services aiming to maintain ability to work. We recognize the risks related to business travel in our operating countries, and therefore we have a travel safety policy and related tools and training to ensure its implementation.

## Governance

Finnfund is committed to follow the highest standards of business ethics in its operations. The Finnfund Code of Conduct guides all our operations and the main principles of the code are honesty, transparency, responsibility and professionalism. Practical tools developed to support the implementation of the Code of Conduct include internal procurement policies and internal audit mechanisms. Finnfund also has an online [whistleblowing mechanism](https://www.finnfund.fi/en/contact-us/whistleblowing/) to report any suspected wrongdoings in the operations of Finnfund or its investee companies. Finnfund provides training on corporate governance for its personnel.

## Finnfund’s stakeholder engagement and transparency

Finnfund strives to enhance its accountability in line with the requirements of the relevant legislation and our [Transparency and Disclosure Policy](https://www.finnfund.fi/en/impact/corporate-responsibility/transparency-and-disclosure-policy/), while observing commercial confidentiality. We report our ESG work and achievements in our publicly available annual reports on impact and sustainability. We also report annually on the carbon footprint of our investment portfolio.

Finnfund provides an open, easy access [complaints and feedback channel](https://www.finnfund.fi/en/contact-us/whistleblowing/) for stakeholders to voice their concerns related to Finnfund’s investments.

We actively engage in discussions with our stakeholders, including public sector institutions, private sector and national and international civil society organisations, on the development and implementation of our policies and procedures. We aim to look for and make use of collaboration opportunities with our stakeholders. With our development financier partners, we actively work to harmonize our requirements and procedures for streamlined project assessment, and implementation procedures for improved efficiency and increased leverage in negotiations with our clients.

# Approval and revisions

This policy has been prepared in consultation with peers, the private sector, government and civil society. Finnfund keeps this Policy and the underlying procedures up to date and continuously improves them, based on lessons learned and feedback from stakeholders.

This policy was approved by Finnfund’s Board of Directors on [xx].12.2019. The policy is publicly accessible and communicated to all relevant parties internally and externally.