finnfund

Impact Report

2018

"Finnfund has managed to combine strong impact with financial profitability"

Impact Report 2018

Content

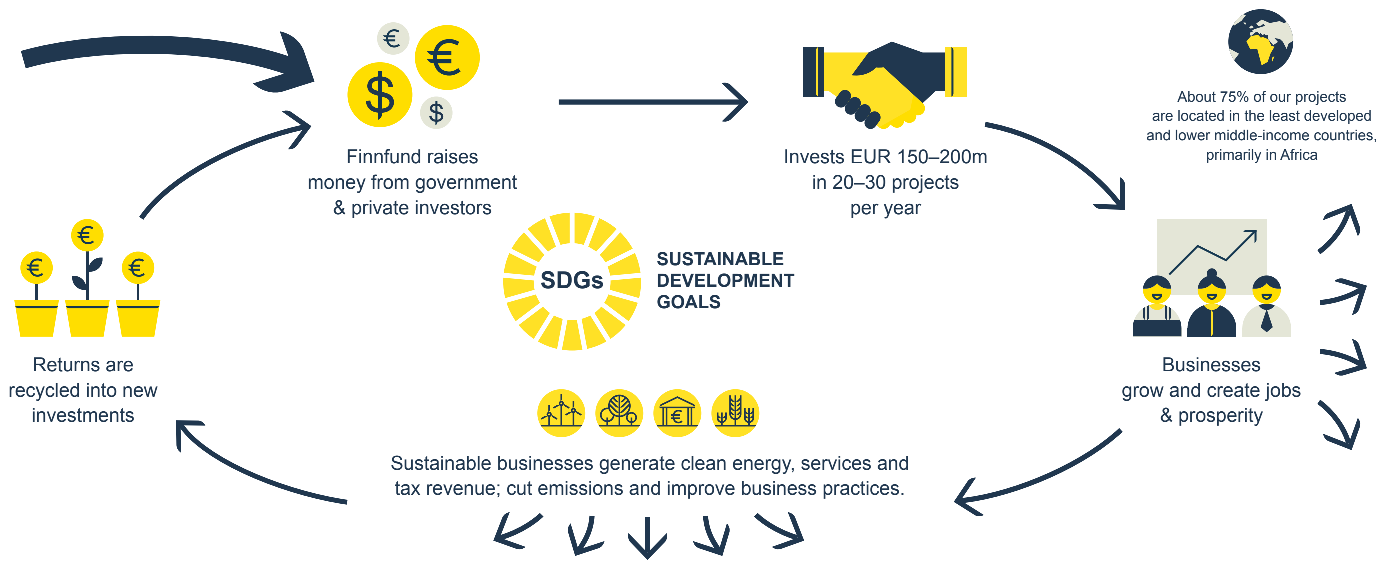
Quote on cover: Evaluation of Finnfund 2018, Ministry for Foreign Affairs

How Finnfund promotes sustainable development

Finnfund's mission is to build a more sustainable world by investing in sustainable and profitable companies in developing countries.

Well-managed, responsible and successful businesses generate decent jobs and clean energy, curb deforestation and climate change, empower women and create tax revenue for local governments. All this is essential to meeting the global Sustainable Development Goals (SDGs) by 2030.

Every Finnfund investment must meet three strict criteria: they must be sustainable, profitable, and generate impact. We assess each investment against these criteria before making an investment decision and we continue to monitor their performance throughout our investment period. Using our leverage as a financier, we encourage our investees to constantly improve their sustainability practices towards people, the environment and society.



Finnfund recycles returns into new investments

Many projects that have a significant development impact would never see the light of day without long-term financing provided by Finnfund and other development financiers. Finnfund's funding is often catalytic because it helps projects raise additional commercial financing.

Most of our investee companies have community development projects alongside their core business activities. This is particularly typical for businesses operating in remote rural areas in which public services are weak.

How does Finnfund promote Sustainable Development Goals?

IMPACT

1 NO POVERTY

- Eradicating poverty from the world by 2030

RESULTS

10 REDUCED INEQUALITIES

- Taxes and payments to the state
- Jobs and services for the poorest

13 CLIMATE ACTION

- Financing for climate change mitigation and adaptation

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

- Introduction of new technologies
- Improving infrastructure and services

8 DECENT WORK AND ECONOMIC GROWTH

- Decent jobs and wages
- Access to official financial services, financial inclusion and economic growth

5 GENDER EQUALITY

- Promoting equality in the workplace
- Support for female entrepreneurship
- Professional development for women
- Micro loans and financial services for women

ACTIVITIES

2 ZERO HUNGER

- Development of sustainable agriculture, forestry and food production

6 CLEAN WATER AND SANITATION

- Sanitation
- Responsible water use, waste management

7 AFFORDABLE AND CLEAN ENERGY

- Improving energy supply, renewable energy

3 GOOD HEALTH AND WELL-BEING

- Improving access to health services and medicines

15 LIFE ON LAND

- Sustainable forestry
- Protecting biodiversity, fighting deforestation

11 SUSTAINABLE CITIES AND COMMUNITIES

- Innovative technology solutions, waste management, improving air quality, housing finance

4 QUALITY EDUCATION

- Training and development of workers
- Education and teaching

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

- Promoting responsible and lawful practices
- Supporting fragile states and regions

14 LIFE BELOW WATER

- Responsible fish farming
- Responsible cleaning of waste water

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

- Responsible production methods

TOOLS

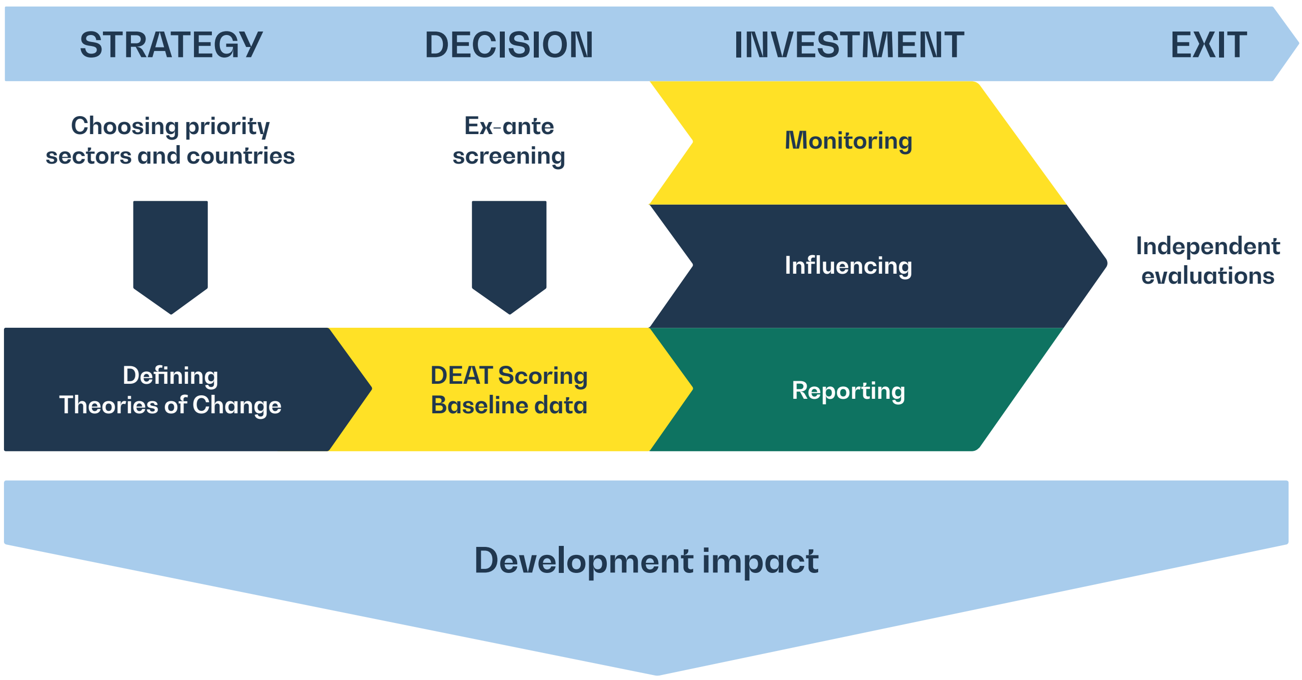
17 PARTNERSHIPS FOR THE GOALS

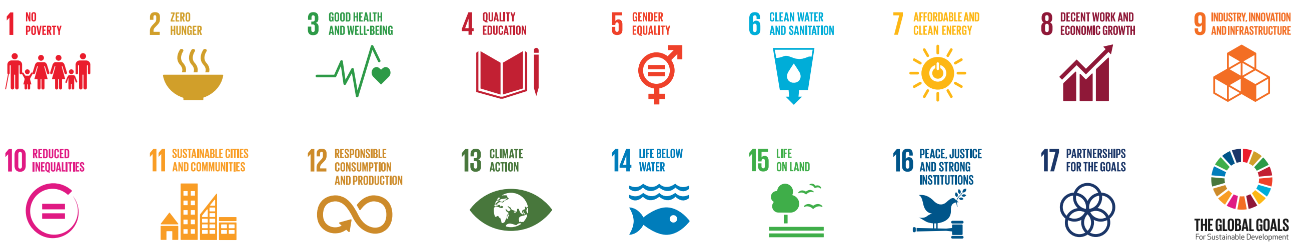
- Financing and mobilising private funding for businesses that promote sustainable development
- Support for poor countries and fragile regions
- Promoting good practices in environmental and corporate responsibility
- Promoting tax compliance and increasing the tax revenue of developing countries
- Promoting cooperation with different actors

Why do companies matter? During the preparation of Agenda 2030 and the Sustainable Development Goals, it became clear that they cannot be met by official development aid only. It is estimated that developing countries will need up to USD 2,500 billion per year in additional investments to achieve these goals. A significant share of this would need to come from the private sector.

It is also clear that companies alone cannot resolve all development challenges – as is hardly ever the case with a single tool. Different types of actions and actors are needed. However, responsible companies can create stability and prosperity, and develop and provide tools e.g. to make it easier to adapt to dry seasons caused by climate change.

Driving impact throughout the investment cycle





Sustainable businesses generate positive environmental and social impact both directly and indirectly. Impact is a combination of what the company does – its products and services – and how it operates – its sustainability practices.

As an impact investor, Finnfund invests only in business projects that have an expected positive net impact on society. Going forward, this means we also take into account the inevitable negative impact of most businesses through, for instance, carbon emissions.

In addition to having positive environmental and social impact, we expect our investments to yield a financial return. When businesses are well run and successful, they are also better equipped to meet their sustainability commitments.

In 2019, Finnfund signed the IFC Operating Principles for Impact Management. The principles describe the essential features of managing for impact. They require a robust investment thesis of how the investment contributes to achieving impact.

Careful screening

Financiers' leverage is at its greatest when they select what to invest in. In Finnfund's case, only around 5% of investment leads screened by Finnfund's experts eventually receive our financing.

The starting point for Finnfund's impact assessments are theories of change, which we have developed for our four main sectors: renewable energy, sustainable forestry, sustainable agriculture and financial institutions.

These theories of change not only help us assess the direct and indirect impacts of the funded company's operations but also its broader social impacts and contribution to the SDGs.

Our key tool for preliminary screening of investments before making an investment decision is called the DEAT (Development Effect Assessment Tool). We have developed the tool on the basis of our theories of change and the joint work conducted by development finance institutions.

The DEAT focuses on the investment's strategic relevance, its contribution to the development of local markets and the additionality of Finnfund's financing.

Monitoring, reporting and evaluation

We set and collect baseline indicators for monitoring each investment. The investee companies report annually to Finnfund on their direct impact, using the agreed indicators. These results are presented in this Impact Report.

We strive to use indicators that have been collectively agreed upon by the international development finance institutions (HIPSO) and are compatible with the IRIS indicators developed by the Global Impact Investing Network (GIIN).

In addition, Finnfund conducts and commissions more extensive assessments of individual investments and specific industry sectors.

Diligent E&S work

Before investment, we assess the level of compliance of potential investments (companies and projects) against the applicable sustainability standards – in most cases the IFC Performance Standards and the ILO Core Labour Standards. Where gaps are identified, we agree with the investee company on an action plan to close the gaps and achieve compliance over time. This action plan is called an Environmental and Social Action Plan (ESAP).

In the course of the investment period, we monitor the progress of each investee company towards full compliance with these standards, as indicated by the degree of implementation of the agreed ESAP.

We also help our investees improve their own systems and practices so that they are better equipped to achieve compliance with the required international standards. This constitutes one key impact dimension of our investments.

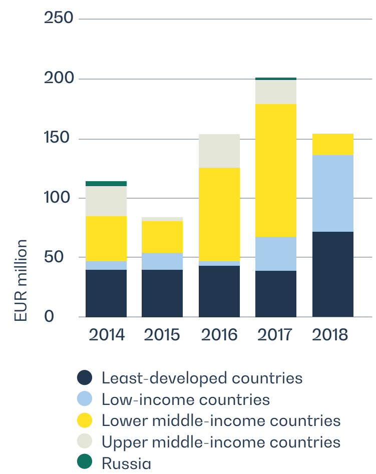
Financiers' influence varies

The figures in this report have been provided by the investee companies and do not reflect the proportion of Finnfund's investment. Attributing impact to each investor only based on their stake in the investee company cannot capture all key factors that contribute to the achieved impact. Other key factors include the type of financing instrument (loan and equity, etc.), the project's risk level, and the level of investors' involvement, including their ability to catalyse external funding, reduce risks or improve the investee's sustainability practices.

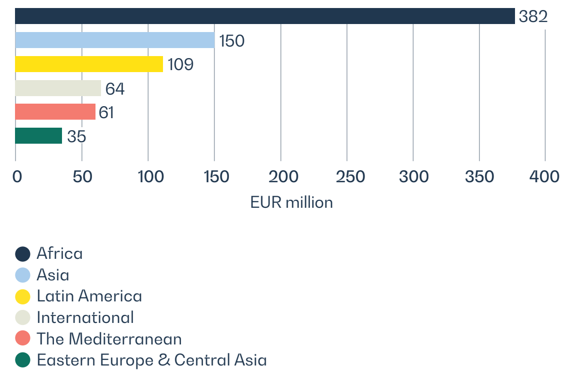
Read more: www.finnfund.fi/en/impact

Overview of Finnfund investments

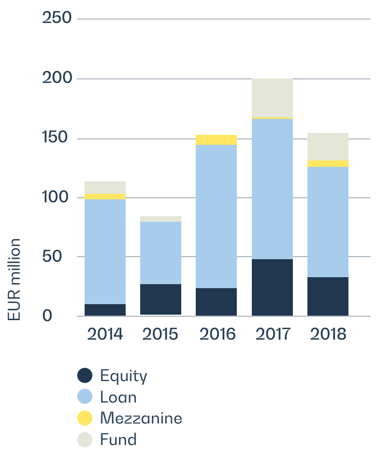
Annual investment decisions by country category 2014-2018
EUR million



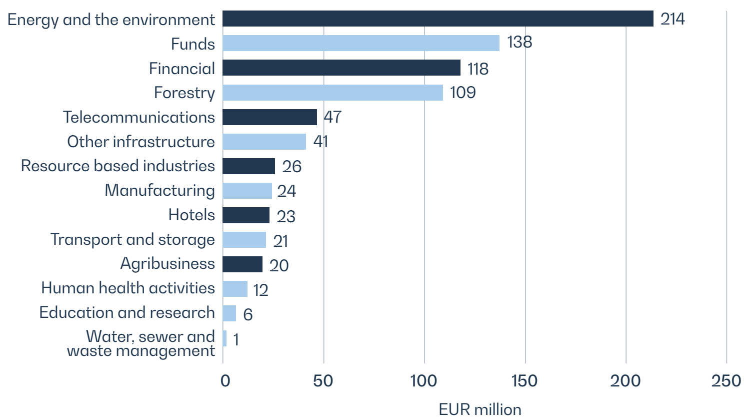
Portfolio and commitments by continent, 31 December 2018
(total EUR 800)



Annual investment decisions by instrument 2014–2018
EUR million at original values



Portfolio and commitments by sector, 31 December 2018
(total EUR 800)



93%
of new investments in the three poorest country categories (OECD DAC)

154 EUR million
of new investment decisions

551 EUR million
of investments in portfolio

Overview of Finnfund's impact in 2018

As Finnfund's investment portfolio kept growing, so did the total impact of our investments. We also strove to select projects with a higher impact, as indicated by the scores from our DEAT. This means that we can expect the impact of our portfolio to grow over time as new investments start achieving their objectives.

It is difficult to compare our portfolio's impact data across the years because our portfolio contents are constantly changing. We make around 20 new investments each year and exit old investments. If we exit, for example, a large wind power project, it will immediately show in our impact reporting, although the wind power plant will keep generating clean energy and have other positive impacts. However, portfolio level data gives an overview of the type of investments in the portfolio.

JOBS

Direct investments supported

56,000

jobs
32% for women

Fund portfolio companies supported

104,000

jobs
33% for women

CLIMATE, CO_2

Companies emitted

201 tCO_2

per invested million – down from the previous year by 20%

Companies emitted

76,000 tCO2

helped avoid

38,000 tCO2

sequestrated

517,000 tCO2

GENDER

32%

of senior managers were women – 37% in new investments made in 2018

15%

of board members were women – 17% in new investments made in 2018

SECTORS

Energy

Investees generated 6,500 GWh energy

Equivalent to electricity consumption of 12.5 million people in operating countries

Acriculture

Investees worked with 2.2 million small-scale and livestock farmers, 88% of them women

Food production equivalent to daily calorie intake of 350,000 people.

Forestry

870,000 ha forest under sustainable management, of which 815,000 FSC certified

Financial institutions

2 million loans to MSME clients – of which 75% are women

6 million mobile loans – of which 32% to women

IMPACT BY SECTOR

Renewable energy curbs climate change and creates prosperity

The Special Report on Global Warming of 1.5 °C, issued by the Intergovernmental Panel on Climate Change (IPCC), conveys a very clear message: All pathways that limit global warming to 1.5 °C will require rapid and far-reaching transitions in energy. Such transitions are only feasible through a significant upscaling of investments in the sector.

Besides the obvious effect on the climate, the reliable and affordable supply of cleaner energy has an important social and economic impact. This is why renewable energy is one of Finnfund's priority sectors.

Finnfund invests in companies that generate cleaner, cheaper and more reliable energy than existing alternatives. At the end of 2018, Finnfund's energy portfolio and commitments stood at EUR 188 million, three quarters of this in direct renewable energy investments. The energy portfolio represents 27% of the total Finnfund portfolio.

Electricity to meet need of 2.5 million people

We did not sign any new direct renewable energy investments in 2018. Seven renewable energy power plants, in which Finnfund had previously invested, were still under construction in 2018.

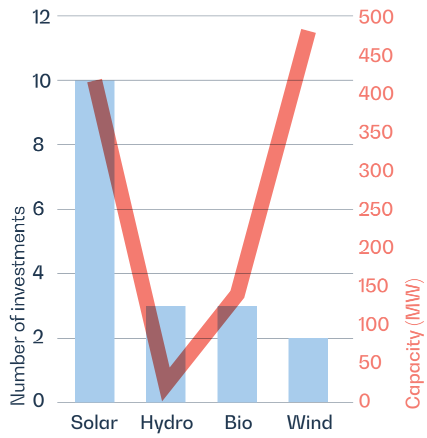
Most (10) of our renewable energy investments are in solar power. The total capacity of the power plants was 1,048 megawatts, which is slightly higher than the electricity generation capacity of Nepal, for example, and over ten times the generation capacity of Somalia.

Half of the generation capacity of Finnfund's investee companies comes from two large wind power plants, Lake Turkana Wind Power (310 MW) and Cibuk Wind Farm (158 MW).

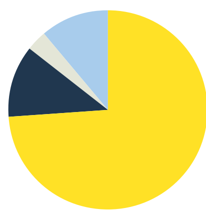
"We want to understand also the wider socio-economic impacts of our energy investments. We know access to electricity correlates with people's welfare, but we need to understand the causality better."

Juho Uusihakala
Finnfund's Senior Development Impact Adviser

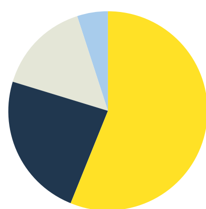
Number and capacity of renewable energy investments



Energy portfolio
(total EUR 188 million)



Renewable energy portfolio
(total EUR 139 million)



Lake Turkana Wind Power, Kenya

The 310-megawatt Lake Turkana Wind Power is Africa's largest wind farm. Connected to the grid in September 2018, it already generates 15% of Kenya's electricity. According to a study, it is expected to reduce outages by 13%. The price of electricity from Lake Turkana is cheaper than the average tariff that the Kenyan utility pays for electricity. At the inauguration ceremony, President Kenyatta stated that in the first eight months of operation, Lake Turkana Wind Power had saved the Kenyan government EUR 75 million as it could use wind power during the dry season instead of expensive diesel.

The eleven operating power plants in our portfolio generated a total of 940 gigawatt hours (GWh), which equals the electricity consumption of nearly 2.5 million people in the countries in which the power plants are located.

The amount of electricity generated by Finnfund investees almost doubled from 2017, mainly attributable to the wind farms of Lake Turkana and Cibuk being connected to the network.

Companies funded through four renewable energy funds in which Finnfund has invested produced 5,215 GWh hours of electricity. All Finnfund investments in energy generated a total of 6,500 GWh. This is equivalent to the electricity consumption of over 12 million people in the countries in which the investments are located.

KEY FIGURES

Investees generated 6,500 GWh energy

Equivalent to electricity consumption of 12.5 million people in operating countries

IMPACT BY SECTOR

Sustainable forestry protects the climate and creates rural jobs

Forests are vital to global efforts to stop dangerous climate change. Today, forests sequester approximately one third of the carbon emissions stemming from the use of fossil fuels. However, rapid deforestation, particularly in parts of Africa and Latin America, is diminishing these indispensable vital carbon sinks.

Forests are, however, much more than carbon sinks. They hold back erosion, preserve biodiversity and help maintain clean water supplies. Sustainably managed forests also bring jobs, services and prosperity to remote rural communities.

Africa and Latin America in focus

Sustainable forestry has long been one of Finnfund's focus areas. At the end of 2018, our investments in forestry represented 18% of the total portfolio. This is higher than any other development finance institution, making Finnfund a leading global investor in forestry.

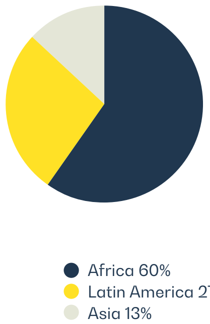
In 2018 we made additional investments in Green Resources in East Africa, Miro Forestry in West Africa, as well as in the Arbaro Fund, which specialises in sustainable forestry investments, particularly in Africa and Latin America.

Most of our ten forestry investees are located in Africa and Latin America, where deforestation rate is most alarming. A large majority of the forests managed by our investee companies have been certified by the international Forestry Stewardship Council (FSC®) as being socially and environmentally responsible and sustainable. This means, for example, that the companies must preserve at least 10% of a forested area. In the case of Finnfund investees, the share of protected forest is often considerably higher.

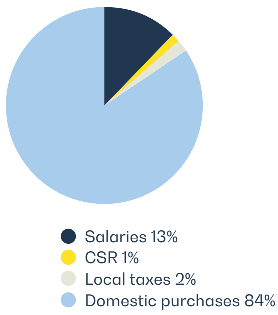
In total, our direct investees had nearly 400,000 hectares under sustainable management, of which 136,000 hectares were planted and growing.

In addition to mitigating climate change, forest plantations are important drivers of the local economy. In 2018, Finnfund's investee companies contributed EUR 125 million to local economies through salaries, corporate social responsibility programmes, local taxes and particularly through purchasing local goods and services. Local purchases have important employment and other benefits in rural economies.

Finnfund's direct investments in forestry (total EUR 101 million)



Contribution to local economies (total EUR 125 million)



KEY FIGURES

870,000 ha forest under sustainable management, of which 815,000 FSC certified

Sustainable forestry in Africa

Finnfund is the leading investor in sustainable plantation forestry in Africa. We have financed Green Resources, the Kilombero Valley Teak Company and New Forests Company with over EUR 40 million, helping these companies become key players in promoting green growth in East Africa.

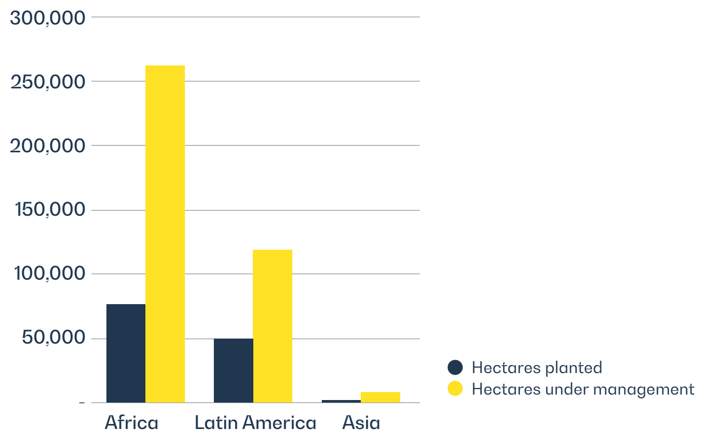
In a study of the role of these companies in developing the forestry industry in Tanzania, Uganda and Rwanda, Indufor found that responsible companies financed by Finnfund are important players in regulated utility pole production (35% market share) but have a smaller role (5–7%) in sawn wood markets, which are still dominated by small, unofficial and unregulated sawmills.

The three companies have the capacity to become even bigger players in the forestry industry when the market grows and becomes more formalised. Despite being the largest plantation companies in the region, their planted forest cover is still less than 1% of the total forest cover and 15% of the total planted forests.

In addition to their own plantations, Finnfund financed companies have distributed 24 million seedlings to other companies and smallholders and are contributing to a 3,000 hectare increase in forest cover annually.

Kilombero Valley Teak Company, Tanzania

Hectares under management and planted



At the end of 2018, Finnfund had invested **EUR 126 million** in 10 forestry companies and five forestry funds. This is **18%** of the total portfolio.

1 NO POVERTY
8 DECENT WORK AND ECONOMIC GROWTH
10 REDUCED INEQUALITIES
13 CLIMATE ACTION
15 LIFE ON LAND

IMPACT BY SECTOR

Agriculture continues to drive development

A vast majority of the world's poorest people are still dependent on small-scale farming. Many farmers, particularly in Africa, continue to grow economically unproductive plants such as corn and cassava, mainly for their own and local consumption.

Climate change is making small-scale farming ever harder, forcing people with no proper education or the skills necessary to find decent employment to migrate to cities.

Improving agricultural productivity is essential for feeding the world's growing population. Agricultural development could also be the fastest route to accelerating industrialisation.

Climate change adaptation

Growth in productivity and yield, enabled by modern agricultural methods, improves the food security and strengthens the balance of payments. It can also support the entire agricultural value chain, including local food production, and helps climate change adaptation by, for example, introducing more resilient crops.

Agribusinesses usually operate outside cities and towns and are often important and may even be the sole local employers. In many cases agribusinesses are strongly associated with the local economy, working directly with local small-scale farmers, providing a marketplace for local produce and helping farmers improve their productivity.

Avocado producer and agribusiness fund

Finnfund's new strategy made sustainable agriculture one of its priority sectors. At the end of 2018, our agriculture portfolio was still relatively small, but we made two new investments in the course of the year:

KEY FIGURES

9,900 jobs in agriculture – 37% for women
2,800 in direct investments
7,100 through funds

Working with 2.2 million small-scale and livestock farmers, 88% of them women

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Produced 98,000 tons of food and 25 million chickens equivalent to daily calorie intake of 350,000 people

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1 million loans to small-scale agriculture, of which 92% were granted to women

Africado, Tanzania

EthioChicken, Ethiopia

Our investee company EthioChicken has been working towards GLOBAL G.A.P. certification – the internationally recognized standard for farm production – since Finnfund's investment in 2016. The company was certified in the spring of 2019.

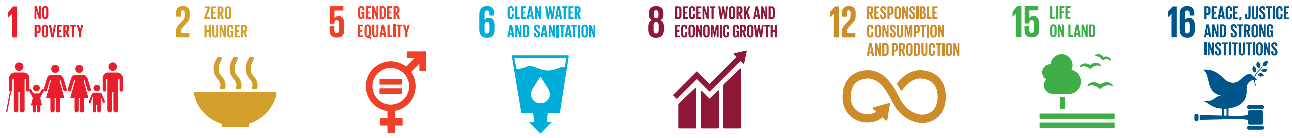
Africado and the Agri-Vie II Fund.

Africado is Tanzania's first commercial, international grade producer of avocados and an important local employer with an outgrower programme encompassing around 2,000 local farmers. Agri-Vie II is a food and agribusiness investment fund in Sub-Saharan Africa with a vision of building responsible businesses in Africa that deliver sustainable returns.

At the end of 2018, Finnfund had 4 direct investments in agriculture and 33 investments through agriculture-focused funds. We also have invested in financial institutions that increase access to finance in this capital-scarce sector.

For instance, in Nigeria, Finnfund invested in Access Bank, which supports the development of Nigeria's agricultural sector and helps reduce dependence on the import of agricultural food and products. Further, many of the microfinance institutions that we have funded directly or indirectly are increasingly focusing on smallholder loans.

Investments in agricultural and food production amounted to approximately **EUR 37 million**, which represents **5%** of total investments.



IMPACT BY SECTOR

Financial services empower people to invest in their future

Globally, access to financial services has improved in recent years, but country-specific differences remain high. Although around 63% of the populations of developing countries already have bank accounts, in many of the countries in which Finnfund operates, the number is significantly less than this.

Our investee companies typically provide financial services to micro, small and medium-sized enterprises (MSMEs), as well as individuals who have few alternative sources of reliable and formal banking services.

Access to financial services plays a significant role in reducing poverty, creating jobs and bridging the gender equality gap. Reliable, easily accessible financial services to the poorest people and small and medium-sized enterprises helps to improve the livelihoods of people and businesses. Banking services also play an important role in empowering women.

Small companies create jobs

A significant proportion of formal jobs in developing countries are in small companies that struggle to access traditional financial services. Lack of finance is a major barrier to the growth of businesses. New digital solutions make banking services more accessible to groups of people in new geographic areas.

Reliable financial services, such as money transfers, payments, savings, loans and insurance, help people protect themselves against unexpected risks – such as those caused by climate change – and invest in their own futures.

Finnfund and other development financiers offer affordable, long-term financing for banks and other financial institutions in developing countries, helping them reach new and previously excluded people.

Access to finance empowers women

In 2018, Finnfund made four new investments in financial institutions. These include additional financing for three existing portfolio companies BOPA, EcoBank and Jumo, as well as one new investment in CAL Bank, which offers SME finance in Ghana.

Gender equality and, more specifically, women's improved access to financial services is an increasingly significant criterion we use to assess new investments before deciding to proceed.

KEY FIGURES

2 million micro and SME loans
- total value EUR **3,600 million**
- **76%** paid to women

6 million mobile loans
– total value EUR **67 million**
- **31%** paid to women

185,000 mortgages, of which **68%** to women

M-Birr, Ethiopia

Most microfinance customers in our portfolio companies are women. The proportion of female customers is clearly higher for the smallest microloans. MSME loans for women tend to be smaller than those for men. Women also account, on average, for 40% of the staff of financial institutions, although there is considerable variation between financial institutions across regions – from less than 7% in India to over 60% in many investees in Africa.

Investments in financial institutions amounted to **EUR 100 million**, which represents **14%** of total investments.

1 NO POVERTY

2 ZERO HUNGER

5 GENDER EQUALITY

8 DECENT WORK AND ECONOMIC GROWTH

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

10 REDUCED INEQUALITIES

IMPACT ACROSS SECTORS

Climate impact of Finnfund's investment portfolio

Many Finnfund investments contribute to climate change adaptation. Microfinance institutions, for instance, strengthen the resilience of the poorest people, who are most vulnerable in the face of climate change. Reforestation projects not only store carbon but can also improve watershed management under changing rainfall patterns. Solar and wind power projects provide energy sources that do not depend on water or biomass – both of which are becoming scarce resources in many regions.

Currently, we apply the ODA criteria, such as OECD DAC Rio Markers for Climate, to indicate a project's contribution to climate change adaptation.

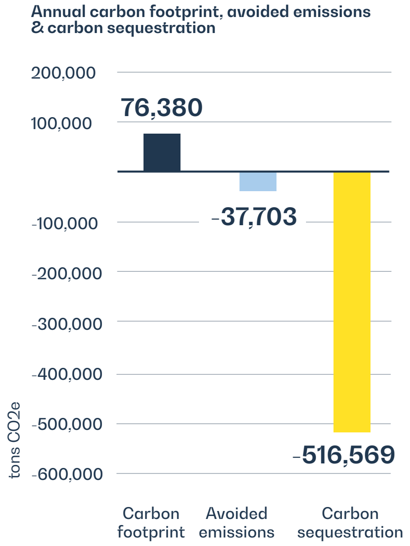
Improved calculation

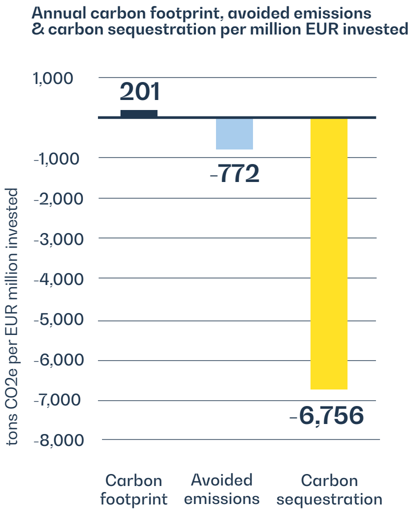
In 2018, we completed our first annual calculation of our portfolio's climate impact from 2016. In 2018, we were able to collect more emission data from our investees, further improving the accuracy of the calculations. We are continuing with the annual portfolio climate impact calculations and have the results for 2017.

Finnfund closely monitors international discussions on climate impact calculation methodologies. We follow the development of international climate strategy standards and alignment with the Paris Agreement.

In 2018 we continued to improve the way we calculate the climate impact of our portfolio. We have been able to include more direct information on emissions. International energy agency updated their databases and we included the new data for our avoided emissions calculations. The carbon sequestration calculations were also updated, and we increased the error margin from 40% to 60% due to uncertainties in the tree growth models.

Carbon footprint, avoided emissions & carbon sequestration performance indicators of Finnfund's portfolio 2017





Carbon footprint
Avoided emissions
Carbon sequestration

Bosforo, El Salvador

KEY FIGURES

Finnfund investees avoided 37,703 tons CO2 and sequestered 516,569 tons CO2

IMPACT ACROSS SECTORS

Good jobs create a path out of poverty

Africa's population grows much faster than new jobs are created. The Africa Competitiveness Report 2017 indicates that by 2035, 450 million Africans will enter the labour force. According to the United Nations, 38% of the employed population of Sub-Saharan Africa lives in poverty in 2018.

Thus, decent work and productive employment are vital elements of sustainable poverty reduction. The OECD is of the view that there is no major trade-off between the quantity and the quality of jobs. OECD member states that offer good quality jobs also have higher employment rates.

However, the challenge of providing the world's expanding workforce with quality jobs is enormous. Creating and maintaining decent jobs, and helping companies achieve decent work standards, is one of Finnfund's key goals.

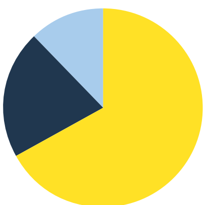
Commitment to ILO labour standards

The international definition of "job quality" and "decent jobs" is still being developed. Finnfund assesses the compliance of its potential investments against the ILO core labour standards and the IFC performance standard on labour and working conditions (as applicable). We also take into account the potential impacts on human rights before committing to finance.

A prerequisite for our financing is that our investee commits to meeting the applicable standards over time. The standards include requirements on non-discrimination, freedom of association and collective bargaining, child labour, forced labour, human resource management, working conditions and terms of employment, occupational health and safety, grievance mechanisms and retrenchment, also extending to contracted workers.

After an investment has been made, Finnfund monitors and evaluates its investees' progress towards full compliance with the above-mentioned international standards, as a proxy for the realisation of job quality. In parallel with the qualitative assessment, we continue to develop indicators for measuring and showing the quality of jobs in our investment portfolio. With these indicators, Finnfund is able to improve its quantitative monitoring and reporting.

Internal grievance mechanism of direct investments



Complete 67%
Work in progress 21%
Not required 12%

Freedom of association in practice

A company in the logistics sector was hiring most of its workers through a labour agent, which is common practice in the sector. The labour and working conditions of workers hired via the agent were not in line with IFC performance standards. Freedom of association was not guaranteed and workers belonging to unions were dismissed. Finnfund and another financier of the company required and ensured that the company guarantees the same labour and working conditions also to workers employed via the labour agent.

New Forests Company, Rwanda

KEY FIGURES

Direct investments supported 56,000 jobs, of which 32% for women

Fund portfolio companies supported 104,000 jobs, of which 33% for women

At company level, the three most compelling reasons to focus on job quality are:

- Improving access to export-oriented markets and international finance by meeting international standards referred to by buyers and financiers
- Improving productivity through better work conditions and
- Reducing skills shortages by retaining trained staff and increasing the attractiveness of the company to skilled workers

Ergon Associates, et al. (2019)

8 DECENT WORK AND ECONOMIC GROWTH

IMPACT ACROSS SECTORS

How sustainability generates impact

Finnfund continuously assesses the human rights, environmental and social sustainability of its investees. For human rights, we use the United Nations Guiding Principles on Business and Human Rights (UNGPs) as a framework and for environmental and social responsibility we use the World Bank/IFC's Environmental and Social Performance Standards and sector-specific environmental health and safety guidelines.

As a precondition to our financing, we expect a clear commitment from our investees to achieving compliance with the applicable sustainability standards. In addition, we require sector-specific corporate responsibility standards, such as Forestry Stewardship Council (FSC®) certification, when applicable.

Risk management and positive impact

There are two sides to corporate responsibility: risk management and contributing to positive development impacts. Positive impact arises from what a company does and how responsibly it operates. We consider improvements to our investees' corporate responsibility to be part of our positive impact.

In 2018, we developed an improved portfolio management system to gather data on the environmental and social status of our investee companies at the time of investment (baseline) and beyond. Selected indicators, such as implementation of the environmental and social management system and action plan, are good proxies for progress on sustainability matters.

Tracking E&S impact

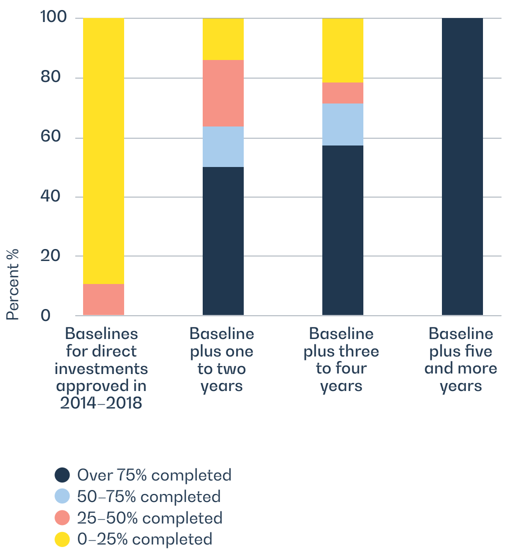
In 2018 we improved our data management systems which allows us to better track environmental and social impact of the investee company.

The picture below shows the progress in E&S management and performance of Finnfund's investee companies during Finnfund's involvement. The completion of action items, as defined in the Environmental and Social Action Plan agreed between the investee and Finnfund, are concrete steps in achieving compliance with the applicable sustainability standards.

Finnfund's approach to human rights

In December 2018, Finnfund's Board approved our human rights statement, developed through the involvement of many stakeholders, both in Finland and abroad. Since the adoption of the human rights statement, we have implemented our human rights due diligence processes and actively engaged our investee companies in discussion about

Portfolio E&S action plan progress



human rights issues, thus raising their awareness and understanding about the potential human rights impacts of their operations.

Finnfund also plays an active role in promoting the management of human rights impacts among development finance institutions as well as developing and sharing tools that can be adopted by others. All this is expected to have a positive impact on the financing community and on people.

“FSC certification not only proves that a company’s forestry operations are sustainable, it also can increase its profit”

Kenneth Söderling
Finnfund’s Impact Analyst

FSC certification at Miro Forestry, Ghana and Sierra Leone

Finnfund requires FSC® certification from its forest investments. When Finnfund invested in Miro forestry, the company started the FSC certification process.

In his Master’s thesis, Finnfund’s Impact Analyst Kenneth Söderling found that FSC certification improved the efficiency and profits of Miro Forestry. Thanks to the certification, Miro forestry was able to start selling its certified products to European markets.

5 GENDER EQUALITY

8 DECENT WORK AND ECONOMIC GROWTH

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

14 VEDENALAINEN ELÄMÄ

15 LIFE ON LAND

IMPACT ACROSS SECTORS

Tax revenue for building stronger societies

The governments of developing countries need revenue from taxes and other fees to build functioning and equitable societies that promote economic and social development. This revenue allows governments to structure and provide services such as education, health care and infrastructure to people.

Tax revenue and other tax-like fees paid by our investee companies to the public sector in developing countries are one of the indicators that Finnfund monitors.

New tax policy

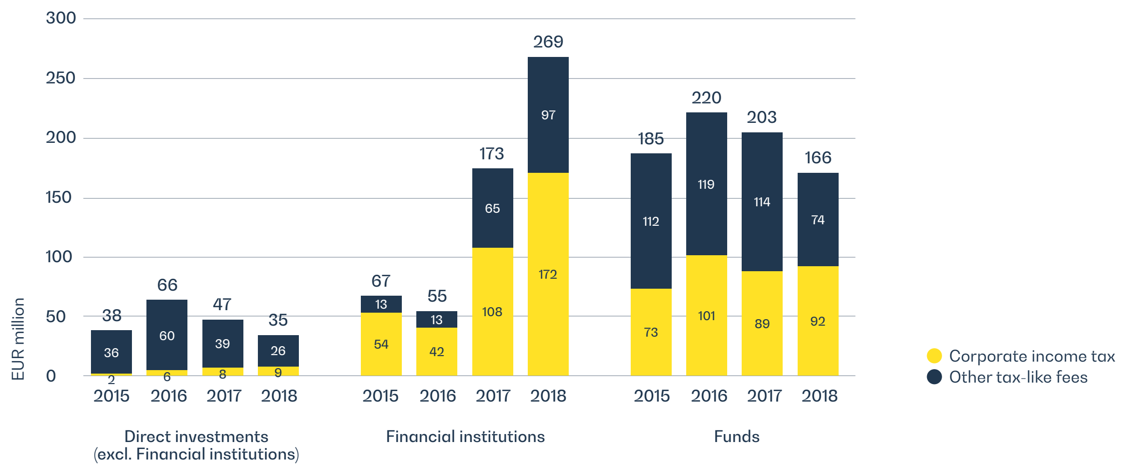
We require our investee companies to act responsibly with regards to tax and comply with local tax legislation. At the beginning of 2018, we introduced a new tax policy, which consists of the principles and practices we apply to assessing and promoting tax responsibility in our investee companies.

In our portfolio, the highest effective taxes are generally paid by companies in the finance sector and they also have the highest effective tax rates. In contrast, renewable energy projects typically pay relatively little in corporate taxes during our investment period, because the projects require large investments before they start to be profitable. They also typically benefit from state tax incentives for investment. For this reason, the corporate taxes that they pay are relatively low in the initial phase, which is the phase that is typically financed by Finnfund and similar development financiers.

In addition to corporate taxes, companies pay other taxes and tax-like fees, such as sales tax, business tax, value added tax, licensing fees and customs duty, dividend tax, as well as different types of administration and public permit fees.

The tax systems, principles and enforcement capacity of the poorest developing countries can vary greatly. In many developing countries, the state takes part of its revenue from businesses through various types of fees.

Taxes and tax-like fees EUR million



KEY FIGURES

In 2018, our portfolio companies paid a total of **EUR 490 million** in their respective countries in taxes and tax-like fees.

53% of the taxes were paid in African countries.

- **55%** by financial institutions
- **7%** by other direct investments
- **38%** by fund investee companies

Corporate taxes and other tax-related payments by countries

	Number of investments	Corporate income tax (EUR million)	Other tax-like fees (EUR million)	Total (EUR million)
Total	**218**	**274**	**217**	**490**
AFRICA	**107**	**173**	**104**	**263**
Kenya	14	4	5	10
Ghana	11	10	14	24
Tanzania	11	16	7	24
Ethiopia	10	0	3	4
South Africa	10	1	18	19
Nigeria	7	20	6	25
Zambia	6	1	2	3
Rwanda	5	-	4	4
Africa LDC/LIC	17	104	27	132
Africa LMIC	13	8	8	16
Africa UMIC	3	8	10	4
ASIA	**50**	**65**	**79**	**144**
Cambodia	9	28	8	36
India	8	23	51	74
Nepal	6	-	1	1
Asia LDC	4	0,4	12	12
Asia LMIC	13	11	5	16
Asia UMIC	10	2	4	5
LATIN AMERICA	**32**	**40**	**32**	**72**
Mexico	6	5	7	12
Latin America LMIC	12	26	3	30
Latin America UMIC	14	9	21	30
EUROPE AND TURKEY	**13**	**1**	**9**	**10**
Europe and Turkey	13	1	9	10
MIDDLE EAST	**6**	**2**	**0,1**	**2**
Jordan	6	2	0,1	2

The table compiles taxes and other tax-like fees by all Finnfund's investee companies (including fund portfolio companies). Any subsidies from the government has been deducted from the figures. If a country has fewer than five investments, data is classified by continent and OECD/DAC income level categories.

LDC = least developed countries
LIC = other low income countries
LMIC = lower middle-income countries and territories
UMIC = upper middle income countries and territories

IMPACT ACROSS SECTORS

Empowering women through investments

Promotion of the rights of women and girls is a long-term priority of Finnish development policy and one of the key objectives of the United Nation's Sustainable Development Goals. Finnfund contributes to these goals through its investments.

In 2018, we started developing our own gender equality statement, which was adopted and published in March 2019.

The gender statement was prepared in consultation with civil society organizations, other development finance institutes and gender experts from both the private and public sectors. It compiles the measures through which Finnfund guides its investment decisions to better promote gender equality, women's role in the markets and women's economic empowerment.

In 2018 we also joined the Gender Finance Collaborative (GFC), which is an international capacity-building network of development finance institutions. The GFC advances the standards and vision for the future of gender-smart investing.

2X Challenge

We also prepared to join another international gender lens investing initiative, the 2X Challenge – Financing for Women. The 2X Challenge aims to increase access to finance for women-owned, women-led and women-supporting enterprises in developing and emerging countries by mobilising USD 3 billion by the end of 2020. Finnfund joined the initiative in May 2019.

We have added 2X reporting requirements for all our new investments, starting from 2019. For 2018, we monitored our portfolio companies for 2X criteria for the first time – including ownership, leadership, employment and consumption. The investee companies were originally not required to report on these additional gender indicators for 2018 but 73% of them did so.

The share of women in the leadership positions is slightly higher in the most recent investments than in the investments done several years ago reflecting the increased focus on gender. Further, 13% of the companies that reported additional gender indicators were able to identify a product or service that specifically or disproportionally benefited women. These included finance products specifically designed for women, health products targeting women, clean cooking stoves and water pumps that specifically affected women's daily lives, as well as community programmes or profit-sharing models in which women are the main beneficiaries.

"24% of the companies that reported gender indicators said they had initiatives to increase women's participation in the workforce. These initiatives include extended maternity leave, flexible working hours after maternity leaves, additional child sick days, mentoring programmes, women welfare committees, gender balance targets from recruitment and promotion, as well as non-harassment policies – to mention but a few."

Kaisa Alavuotunki
Finnfund's Senior Development Impact Adviser

Annapurna Finance, India

KEY FIGURES

At the end of 2018, **15%** of board members were women. For new investments in 2018, the proportion was **17%**.

At the end of 2018, **32%** of senior management in our portfolio companies were women. For new investments in 2018, the proportion was slightly higher at **37%**.

Annexes

EthioChicken, Ethiopia

Development impact

	Direct investments	Financial institutions	Funds	Total 2018	Total 2017	Total 2016
Jobs, total	18,000	37,000	1,000	56,000	51,000	30,000
Jobs, women %	21	37	27	32	32	32
Jobs in fund portfolio companies		8,000	96,000	104,000	77,000	75,000
Jobs in fund portfolio companies, women %		25	34	33	32	31
Taxes, all (EUR million)	35	269	186	491	424	340
Domestic purchases (EUR million)	355		139	494	313	308
Smallholders, total	2,102,000		146,000	2,248,000	2,036,000	38,000
Smallholders, women %	89		55	88	78	-
Energy generated (GWh)	1,300		5,200	6,500	6,400	6,500
Microloans, number		990,000	1,177,000	2,167,000	1,876,000	1,678,000
Microloans (number), women %		79	72	75	71	79
Microloans, rural %		48	-	15	-	-
Microloans, EUR million		1,071	1,505	2,576	3,132	1,821
Microloans (EUR), women %		76	47	59	-	-
Microloans, average size		1,100	1,300	1,200	1,700	1,100
SME loans, number		116,000	33, 000	149,000	118,000	457,000
SME loans (number), women %		52	28	43	54	41
SME loans (number), rural %		42	-	42	-	-
SME loans, EUR million		2,572	360	2,932	2,704	2,293
SME loans (EUR), women %		36	20	26	-	-
SME loans, average size, EUR		22,000	11,000	20,000	23,000	5,000
Agricultural loans, number		153,000	970,000	1,124,000	790,000	-
Agricultural loans (number), women %		73	95	92	84	-
Agricultural loans, EUR million		896	227	1,123	1,063	-
Agricultural loans, average size		-	-	1,000	1,345	
Housing loans, number		84,000	101,000	185,000	218,000	457,000
Housing loans (number), women %		74	63	68	38	-
Housing loans, EUR million		567	169	736	1,045	385
Housing loans, average		6,800	1,700	4,000	4,800	
Mobile loans, number		5,932,000		5,932,000	3,886,000	-
Mobile loans (number), women %		31		31	26	-
Mobile loans (number), rural %		13		13	-	-
Mobile loans, EUR million		67		67	61	-
Mobile loans (EUR), women, %		28		28	-	-
Mobile loans, average size, EUR		11		11	16	-
Climate effect: Carbon Footprint of investments (tCO2e)				-	127,000	-
Climate effect: Avoided emissions (tCO2e)				-	64,000	-
Climate effect: Carbon Dioxide sequestrateion (tCO2e)				-	530,000	-
Share of Finnfund's funding reported as official Finnish Climate Funding, EUR				-	17,594,000	-

Responses were received from 106 companies, with a response rate of 97%.
In 2017, responses were received from 103 companies, and in 2016 from 92 companies.
The numbers have been rounded off. As some of the indicators are sector-specific, the number of respondents varies.

How does renewable energy promote sustainable development?

Why is it important?

First time in history, the number of people living without electricity has decreased below 1 billion. However, it is estimated that in 2040 there will be 700 million people living without electricity, and most of them are in Sub-Saharan Africa (IEA World Energy Outlook 2018).

Electricity generation and consumption correlate with economic growth. In the poorest and lower middle income countries, 55% of companies say that their biggest problem is unstable or too expensive electricity (IEG 2016).

Electricity demand is expected to quadruple in Sub-Saharan Africa by 2040. Fresh investments are needed up to USD 490 billion (McKinsey 2015).

finnfund

- financing
- expertise and responsible practices
- mobilization of funding

Financing for

Power plants, off-grid solutions such as small solar panels, and solutions to improve energy efficiency

Direct impacts

Company
- Increased electricity generation

People
- Jobs at construction and operation stages
- Improved infrastructure
- Tax revenue

Environment
- Increased renewable energy generation

Indirect impacts

- Cheaper and more reliable electricity for electric utilities
- Cheaper and more reliable electricity for customers
- More customers and electricity connections
- Improved economic activity in the region
- Replaced fossil fuels
- Less CO2 emissions

Wider impacts

- Increased production and improved productivity
- Strengthened balance of payments
- Improved public service delivery
- Economic growth, more jobs
- Less poverty
- Mitigating climate change

Sustainable Development Goals

- 1 NO POVERTY
- 7 AFFORDABLE AND CLEAN ENERGY
- 8 DECENT WORK AND ECONOMIC GROWTH
- 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
- 13 CLIMATE ACTION

How sustainable forestry promotes sustainable development?

Why is it important?

Forests are the most important carbon sinks. Deforestation has slowed down, but 3.3 million hectares of forests are still lost annually, particularly in Africa and Latin America (FAO Global Forest Assessment 2015). The global forest area must be increased significantly (IPCC 2018).

According to the United Nations, 1.6 billion people get their livelihood from forests. Forests are home to 70 million indigenous people and 80% of the world's animal, plant and insect species. Simultaneously, demand for wood is expected to double by 2030 to 7.2 billion cubic meters annually (WWF 2012).

finnfund

- financing
- expertise and responsible practices
- mobilization of funding

Financing for

Sustainable forestry and other wood industry, such as saw mills

Direct impacts

Company

- Increased production
- More efficient production
- Better product quality
- Higher sales price

People

- Co-operation with local communities
- Improved infrastructure
- Jobs and salary income
- Local purchases

Environment

- Forest area grows in size
- Forest biomass increases
- More protected forest area

Indirect impacts

Company

- Improved productivity and profitability
- Improved forestry expertize
- Improved availability of certified timber
- Replaces imports

People

- Development of remote areas
- Benefits to out-grower farmers
- Forestry seen as source of income
- Less local conflicts
- Increase in jobs & incomes

Environment

- CO2 sequestration increases
- Less illegal logging

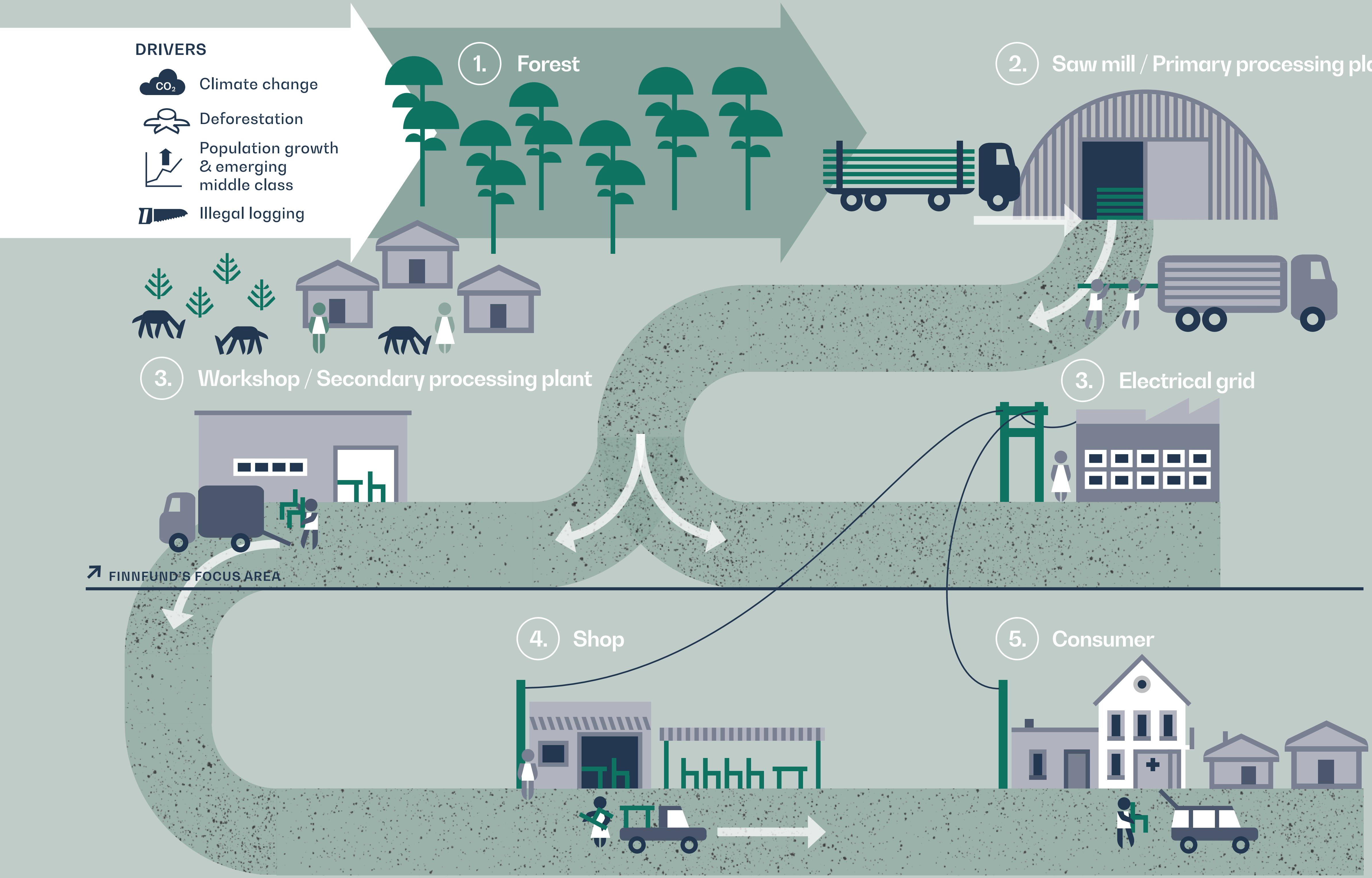
Wider impacts

- Forest industry strengthens
- Economic growth
- More tax revenue for the society
- Strengthened balance of payments
- Less poverty
- Enhancing inclusive growth
- Mitigating climate change and promoting adaptation

Sustainable Development Goals

- 1 NO POVERTY
- 5 GENDER EQUALITY
- 8 DECENT WORK AND ECONOMIC GROWTH
- 10 REDUCED INEQUALITIES
- 12 RESPONSIBLE CONSUMPTION AND PRODUCTION
- 13 CLIMATE ACTION
- 15 LIFE ON LAND

SUSTAINABLE FORESTRY Value chain



finnfund DECEMBER 2018

SUSTAINABLE FORESTRY

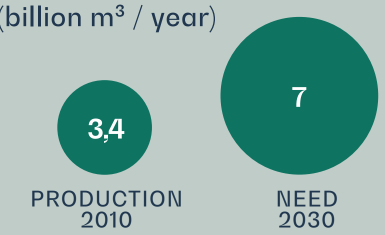
- Fights against climate change and deforestation
- Enhances product quality
- Increases domestic production and employment – enhances balance of payments
- Increases legal trade of wood
- Develops rural areas
- Increases public revenue

CHALLENGES

- Need for skilled labour
- Worker health&safety and fair wage
- Land acquisition and community collaboration
- Fire risk
- Biodiversity protection
- Long investment period – changing operational environment
- Developing markets and rudimentary infrastructure
- Weak governance and legal system

GROWING NEED FOR SUSTAINABLE ROUNDWOOD

(billion m^3 / year)



▶ **More pressure to cut natural forests. Forest loss is already a major problem particularly in Africa and South America.**

SOURCE: WWF 2012

How does sustainable agriculture promote sustainable development?

Why is it important?

World's growing population needs sustainably produced food – population is expected to reach 9.5 billion by 2050. In Sub-Saharan Africa, population is expected to double by 2050. Africa has most of the world's uncultivated arable land, but agriculture productivity is low and the continent is not able to feed itself.

In 2016, the number of undernourished people was over 815 million globally, of which 28% lived in Sub-Saharan Africa (FAO 2016). Development of modern agriculture enhances adaptation to climate change. It also plays a vital role in rural development, as a source of income, in strengthening food security and in job creation.

finnfund

- financing
- expertise and responsible practices
- mobilization of funding

Financing for

Agriculture and other primary production, food processing, storage and distribution

Direct impacts

Company

- Increased production
- Improved income opportunities
- Improved product quality
- Adoption of new innovations
- More efficient production
- Increased payments to government

People

- Jobs and salaries (also to women)
- Improved income opportunities through local purchases
- Improved social standards
- Improved food security
- Improved roads and other infrastructure
- Increased access to improved seed and techniques

Environment

- More sustainable production
- Improved animal wellfare

Indirect impacts

- Modernization of agriculture sector
- Increased exports or reduced imports
- Local value chains develop and diversify
- Increasing self-sufficiency, moving up the value chain
- Improved farming productivity and techniques
- Decreasing food price volatility
- Development to rural areas
- Increasing economic empowerment of women
- Promoting climate change adaptation
- Reducing erosion and environmental stress
- Increased CO2 sequestration

Wider impacts

- Enhancing inclusive growth
- Less poverty
- Strengthening food security and reducing vulnerability
- Strengthening competitiveness of the economy
- Strengthened balance of payments
- More tax revenue for the society

Sustainable Development Goals

- 1 NO POVERTY
- 2 ZERO HUNGER
- 5 GENDER EQUALITY
- 8 DECENT WORK AND ECONOMIC GROWTH
- 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
- 12 RESPONSIBLE CONSUMPTION AND PRODUCTION
- 13 CLIMATE ACTION
- 15 LIFE ON LAND

How do financial institutions promote sustainable development?

Why is it important?

Up to 1.7 billion adults and about 40% of the poorest households, and particularly women, do not have an official bank account (World Bank 2017).

About 40% of all formal micro, small and medium enterprises in the developing countries are credit constrained. Up to USD 5,200 billion is needed to fill this finance gap (IFC 2017).

finnfund

- financing
- expertise and responsible practices
- mobilization of funding

Financing for

Banks, microfinance institutions, fintech

Services include

Savings, money transfers, credits, insurances, digital fintech services such as mobile money

Direct impacts

Financial institution

- Increased lending to MSME clients
- Increased efficiency and credit risk maangemetns through digital solutions
- Increased payments to government
- New clients from unbanked groups
- Enhanced customer protection principles
- Increased availablity of non-financial services

Micro, small and medium-sized enterprises

- New companies gain access to financial services
- Larger variety of financial services
- Better loan terms such as longer tenors and larger loan sizes
- Flexible credit processes through digital services

People

- More jobs in financial institutions and companies
- Larger variety of financial services
- Increased access to financial services for unbanked (incl. women)
- Digital services enable financial identity
- Increased financial literacy

Indirect impacts

- Improved and more diversified credit market
- Improved viability in financial sector
- Informal companies become formalized
- New companies emerge and create jobs
- Existing companies invest more and grow
- Increased capacities to invest in future and mitigate risks
- Enhancing equal access to financial services
- Enhancing economic empowerment and independence of women

Wider impacts

- Enhancing inclusive growth
- Less poverty
- Enhancing gender equality
- More tax revenue for the society

Sustainable Development Goals

- 1 NO POVERTY
- 5 GENDER EQUALITY
- 8 DECENT WORK AND ECONOMIC GROWTH
- 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
- 10 REDUCED INEQUALITIES

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