

Sustainability Bond Framework

September 2022

finnfund



Content

Background	3
Finnfund Sustainability Bond Framework	9
1. Use of proceeds	10
Green Project categories	13
Social Project categories	19
2. Process for project evaluation and selection	26
3. Management of proceeds	28
4. Reporting	29
5. External review	31

Cover photo:
Through microfinance institutions,
Finnfund aims to support, for instance,
female entrepreneurs.
Photo: Proximity Finance

Background

About us

Finnfund (Finnish Fund for Industrial Co-operation Ltd) is a development financier and professional impact investor with the mission to promote economic and social development in developing countries. Finnfund is majority-owned by the Finnish State. We get our funding from the State of Finland and private capital markets, as well as through retained earnings from our investments. All profits are recycled into new projects that drive sustainable development.

Finnfund's vision is that people and the planet are at the core of every investment decision. Our investments comprise risk capital, long-term investment loans and mezzanine financing and we also provide expertise on how to invest in developing markets.

Finnfund invests only in developing countries, as defined by the OECD Development Assistance Committee's (DAC) list of Official Development Assistance (ODA) recipients. Our investments target almost exclusively low or lower-middle income countries where the need for sustainable development is the greatest. The majority of our investments are made directly in companies but we can also make indirect investments through private equity funds or financial institutions with a targeted development impact focus.

Finnfund financing is always market-based and depends on the risk of the project. We expect our projects to be profitable, socially and environmentally responsible and to generate a measurable development impact in their target countries.

Each year Finnfund invests 200–250 million euros in 20–30 projects with special emphasis on sectors that are critical to sustainable development, namely renewable energy, sustainable forestry, sustainable agriculture, financial institutions and digital infrastructure and solutions.

We have created Theory of Change descriptions for each of the sectors, which guide our impact thinking when we assess investments before financing decisions, monitor projects annually, and commission specific impact studies and surveys. The Theories of Change, or impact pathways, describe how our financing and other inputs lead to changes in a company's performance, generating direct, indirect, and wider economic, social and environmental impacts.

In addition to the five sectors mentioned above, we also invest in other areas relevant

for sustainable development whenever they match our investment strategy and meet our requirements.

Sustainability at Finnfund

[Finnfund's strategy](#), outlined in Figure 1 below, builds on steering from the Ministry for Foreign Affairs of Finland and guides us to increase investments in projects that specifically target positive environmental, social and other development impacts and that contribute to achieving the 2030 Agenda and its 17 Sustainable Development Goals (SDGs). In principle, SDG 1 and 8 – poverty reduction and creation of decent work – are at the core of all our investments. We also assess every investment against the SDGs to identify the goals to which the investment can particularly contribute.

The strategy defines three key objectives for the period of 2022–2025:

- **Doubling our total impact from 2020 to 2025:** capturing both portfolio growth and investee impact growth, measured by key impact indicators for each key sector.
- **Increasing the level of private capital:** 50% of investments with private capital by 2030.
- **Maintain a carbon net-negative portfolio:** our investments should remove more carbon from the atmosphere than they emit.

Finnfund’s overarching [Sustainability Policy](#) guides the assessment and management of sustainability within our investments. It covers environmental, social and governance issues as well as impact created through sustainable business practices. The Sustainability Policy is accompanied by several thematic statements on, for example, climate and energy, human rights (based on the UN Guiding Principles for Business and Human Rights, UNGPs), gender equality, and responsible tax, as well as adopted internal guidelines and tools to support implementation.



Figure 1: Finnfund’s strategy for 2022–2025

Mitigation of climate change and support for adaptation to it are among Finnfund’s key objectives and development achievements. In July 2021, Finnfund adopted a new statement on climate and energy that commits us to align all new investments with the Paris Agreement. We will also make billion euros worth of new investments in climate finance by 2030 and contribute to the push for more systematic, harmonised and transparent climate finance disclosures and reporting. For example, as of 2021, Finnfund will adopt and make disclosures consistent with the recommendations of the Task-Force on Climate-related Financial Disclosures (TCFD). We are also a member of the Adaptation & Resilience Investors Collaborative, which commits us to substantially increase investments in climate adaptation and resilience to support vulnerable developing and emerging countries.

Sustainability in our investments

Finnfund’s mission is to build a sustainable future and generate lasting impact by investing in businesses that solve global development challenges.

Responsible business practices can improve the operational and financial performance of a company, enhance employee well-being and commitment, and bring competitive advantage. They also improve the company’s risk management by ensuring that the “do no harm” principle is respected in our investments, helping to anticipate unexpected risks and impacts, as well as to enhance cooperation with stakeholders and strengthen the social licence to operate. Essentially, responsibly managed companies add value to our investments and contribute to generating positive impact.

To realise our mission to support businesses that solve global development challenges, every Finnfund investment must meet three criteria, outlined in Figure 2: profitability, sustainability and development impact. At the beginning of the investment period, Finnfund sets and collects baseline indicators for monitoring the direct impacts for each investment. During the entire investment period, our investee companies report annually on the agreed indicators, which inform us whether the investments are on track with their predicted impact

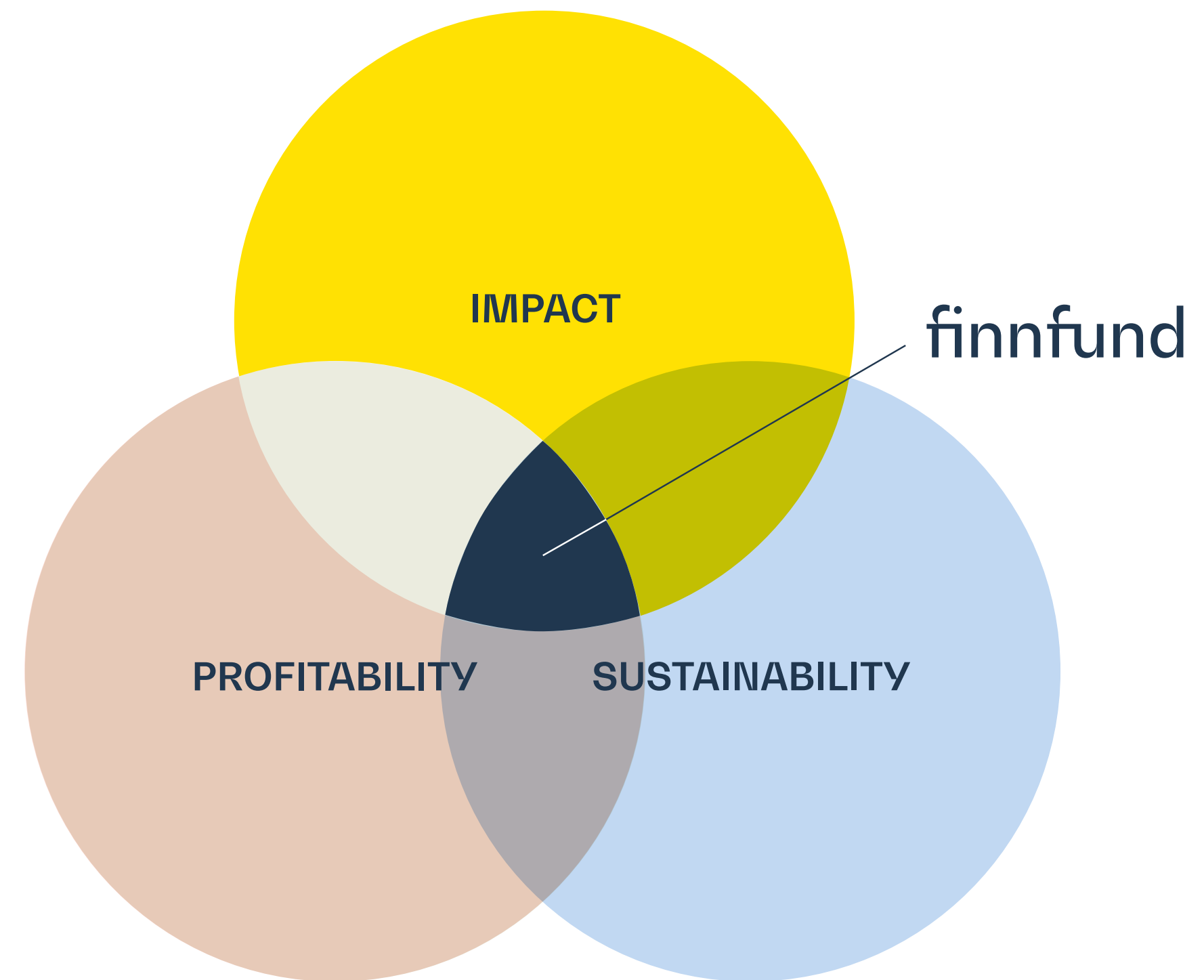


Figure 2: Finnfund has three criteria for all investments: impact, profitability and sustainability.

performance. The majority of our indicators are based on the [Harmonized Indicators for Private Sector Operations \(HIPSO\)](#), or the IRIS+ indicators developed by the [Global Impact Investing Network \(GIIN\)](#) and hence collectively agreed upon by international development finance institutions and impact investors.

Finnfund’s key tool for preliminary screening of investments before making an investment decision is the [Development Effect Assessment Tool \(DEAT\)](#). The tool builds on our Theories of Change and the joint work conducted by development finance institutions. Each potential investment receives an impact score based on its strategic relevance (e.g. its level of inclusivity), its contribution to markets and local economic development, and the additionality of Finnfund’s financing. Finnfund also assesses the climate effects of every investment prior to the investment decision as well as annually during the investment period. This assessment includes the absolute emissions of the investment, avoided emissions for energy investments, and carbon removals for forestry projects. Moreover, Finnfund is developing processes and tools to better

assess and mitigate the risks and to enhance net gains related to biodiversity.

All investments are assessed through a gender lens that looks at the level of gender equality in the investee company in terms of its ownership, leadership, workforce and clients. As a member of the global initiative 2XCollaborative, a global gender lens investing community, Finnfund seeks to invest in businesses that boost women’s economic empowerment,

entrepreneurship, and leadership, as well as their position and role in the marketplace.

Finnfund is a member of the Association of European Development Finance Institutions (EDFI) and has endorsed the EDFI Principles for Responsible Financing of Sustainable Development (2019). Endorsement of the Principles means that our own practices as well as investee requirements are aligned with the jointly agreed harmonised minimum environmental and social requirements

applicable in EDFI co-investments, including the related [Exclusion list](#). Finnfund was also one of the first signatories to the [Operating Principles for Impact Management \(OPIM\)](#), which support the development of the impact investing industry by establishing a common discipline around the management of investments for impact. Our approach to impact creation is outlined in Figure 3.

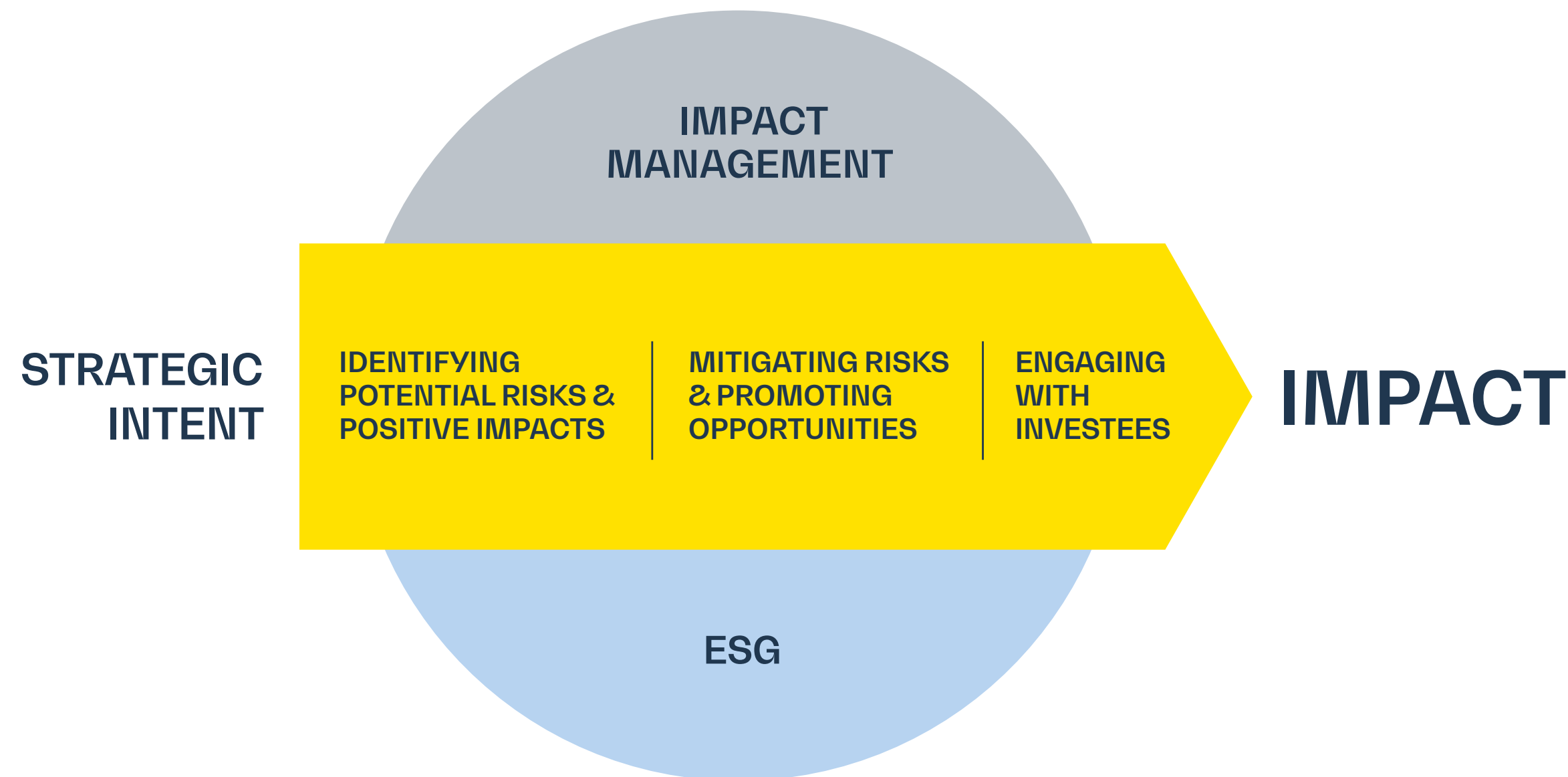


Figure 3: Impact creation at Finnfund.

Leveraging state capital

Finnfund leverages financing for sustainable development globally by providing investment opportunities for private investors, as outlined in Figure 4.

By providing long-term financing and risk sharing with commercial financiers that would be unable to take on the full project risk on their own, we enable projects with significant development impact potential to take off. Without the risk sharing and long-term financing provided by Finnfund and other development financiers, many projects would never have materialised.

Mobilising private capital is key to achieving the SDGs in developing countries, given that the UN estimates the financing gap at USD 2.5 trillion per year. Increasing the level of private capital is therefore one of Finnfund’s strategic goals and we work as a catalytic investor by leveraging partners, additional capital and expertise for projects that contribute to progress towards the SDGs.

Moreover, we use our leverage as a development financier to encourage our

investees to constantly improve their sustainability practices towards people, the environment and society. In practice, this means, for example, that Finnfund assesses responsible business practices before

making an investment decision, and ties its payments to achieved improvements in corporate responsibility. Most of our investee companies also 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.

Figure 4: Finnfund’s approach to development, where funds are raised from government and private investors and invested in projects generating development impacts. Returns are recycled into new investments.



How does Finnfund promote Sustainable Development Goals?



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 require fresh investments worth up to USD 4,000 billion 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.

This figure illustrates how Finnfund's investments promote the achievement of the 17 Sustainable Development Goals.

Finnfund Sustainability Bond Framework

By setting up this document (the Sustainability Bond Framework or the Framework), Finnfund aims to mobilise debt capital to support our mission to generate lasting impact by investing in businesses that solve global development challenges. The Framework is aligned with the Green Bond Principles, Social Bond Principles, and Sustainability Bond Guidelines, all as published by the International Capital Market Association (ICMA) in 2021. The four core components of ICMA's Principles, along with its recommendation of External Review, form the basis of this Framework:

1. Use of Proceeds
2. Process for Project Evaluation and Selection
3. Management of Proceeds
4. Reporting
5. Verification

The Sustainability Bond Framework, outlined in Figure 5, allows Finnfund to issue three types of bonds:

- Green Bonds, to finance and/or refinance eligible green lending, equity investments, and mezzanine financing mainly targeting the objective of climate change mitigation and adaptation (“Green Projects”);
- Social Bonds, to finance and/or refinance eligible social lending, equity investments and mezzanine financing mainly targeting improved living and health conditions for underserved groups (“Social Projects”);
- Sustainability Bonds to finance and/or refinance a mix of Green Projects and Social Projects.

The terms and conditions of the underlying documentation for each Green, Social and Sustainability Bond shall provide a reference to this Framework.

Finnfund has worked with Danske Bank to develop the Framework, and Sustainalytics has provided a second-party opinion, which is publicly available on [our website](#). Finnfund will also assign an independent external party to review the management of proceeds annually, until full allocation of the bond proceeds.

1. Use of proceeds

Allocation of net proceeds

An amount equal to the net proceeds of the Green, Social and/or Sustainability Bonds issued by Finnfund will finance or refinance, in whole or in part, eligible Green and Social Projects (“Eligible Projects”). Net proceeds will be allocated to Eligible Projects within 24 months after the issuance date of the Green, Social or Sustainability Bond.

Eligible Projects can be financed through loans, mezzanine financing and equity investments made directly in companies, or indirectly through private equity funds or financial institutions for the purpose of contributing to climate change mitigation, climate change adaptation or improved living and health conditions for underserved groups. Contribution to these objectives are assessed on a case-by-case basis by Finnfund. General corporate purpose financing

is limited to investees that derive at least 90% of their revenues from activities identified in the Eligible Project categories of this Framework.

Overarching eligibility criteria

The following pages will provide an overview of the eligibility criteria for each project category, along with the context of why it contributes to advancing sustainable development. As overarching eligibility criteria, the Eligible Project has to be implemented responsibly, generate measurable development impacts, be financially profitable and target a developing country. A developing country is defined as a country included in the DAC list of ODA recipients (DAC countries). The majority of Eligible Projects will target countries categorised as low or lower-middle income countries in the list.

Finnfund’s indirect investments

The majority of Finnfund’s investments are made directly in companies operating in developing countries but we also invest in funds and finance banks and financial institutions (FIs) with a targeted development impact focus. These indirect investments allow us to reach low-income households and micro, small and mid-sized companies that would not have been within the scope of Finnfund’s direct investments.

These projects would typically be too small for Finnfund to finance, and we would not have the capacity to conduct the necessary credit and ESG risk evaluation. Instead, we partner with like-minded funds and FIs with local

presence, expertise, and networks. The FIs and funds are thoroughly scrutinised and continuously evaluated by Finnfund to maintain the highest standard.

In addition, Finnfund often participates in the advisory boards of the funds, thus ensuring that resources are applied sustainably. Funds are requested to provide comprehensive information about what they invest in, and to report on development impacts and sustainability issues to Finnfund. Our financing is always market-based and depends on the risks of the project.

EU Taxonomy alignment

The sustainable bond market has developed rapidly and continues to evolve with new standards and regulations such as the EU Taxonomy Regulation and the Taxonomy Climate Delegated Act, formally adopted on 4 June 2021. The Taxonomy does not yet give guidance on how it should be applied to investments outside the EU.

However, Finnfund, together with other European development financiers, strives to follow the development and implementation of the Taxonomy. The same applies to this Framework, in which the eligibility criteria for the Green Project categories strive to align with the Taxonomy criteria wherever applicable.

Exclusions

Green, Social and Sustainability Bond net proceeds, or any temporary holdings, will not be allocated to activities covered in [Finnfund's comprehensive exclusion list](#) or in the common exclusion list of EDFI. Countries on sanctions lists or the EU list of non-cooperative jurisdictions for tax purposes are excluded from financing as well.

Financing and refinancing

Green, Social and Sustainability Bond net proceeds can finance both existing and new Eligible Projects financed by Finnfund. New financing is defined as Eligible Projects financed within and after the reporting year. Refinancing is consequently defined as Eligible Projects financed before the reporting year. The distribution between new financing and refinancing will be reported on in the annual Sustainability Bond Report.

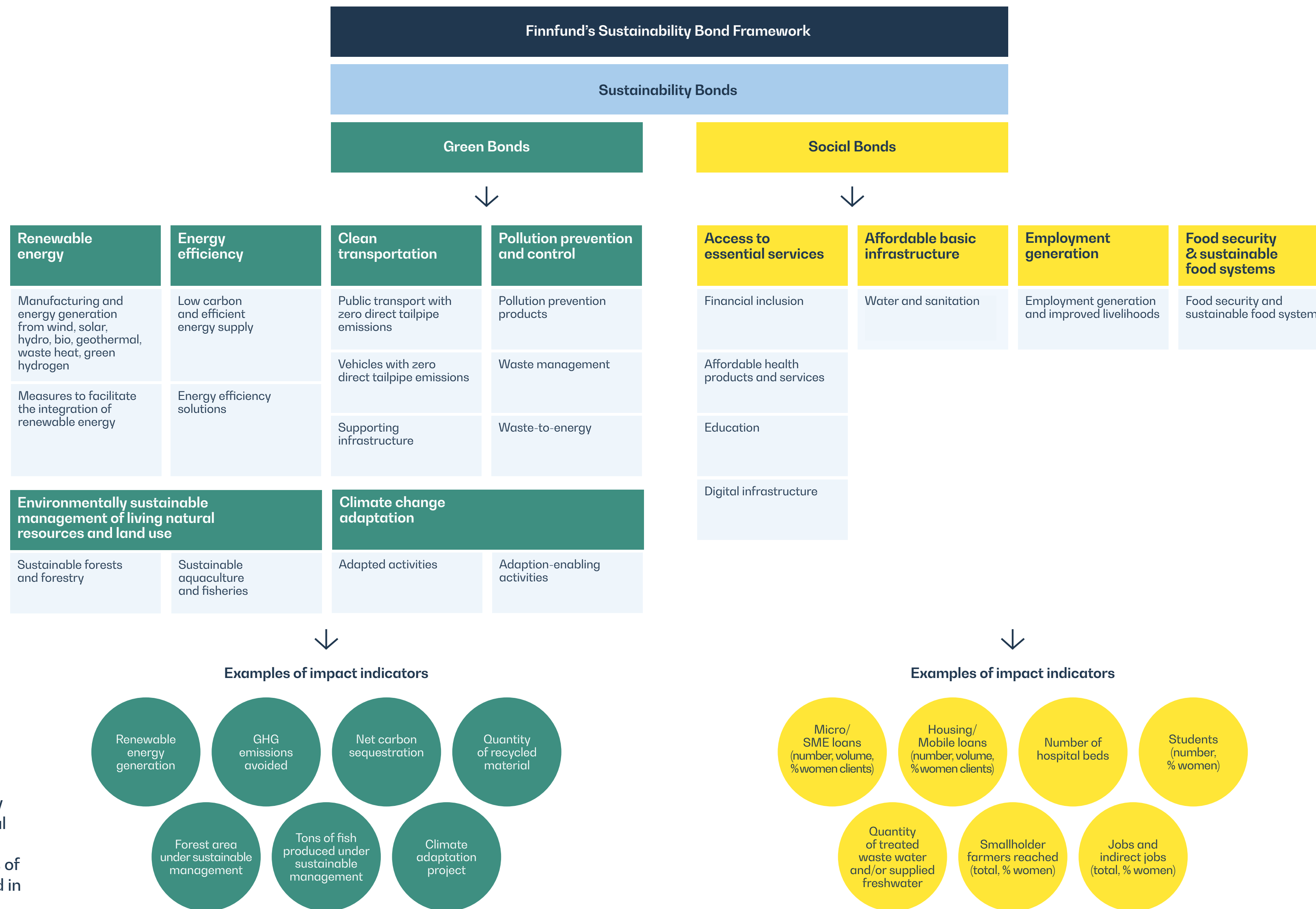


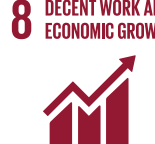




Figure 5: Finnfund's Sustainability Bond platform, including potential bond formats, green and social project categories, and examples of impact indicators to be measured in the annual impact reporting.

Green Project categories

1. Renewable energy



Facilities and their associated products, appliances and infrastructure that contribute to improved access to clean and modern energy services.

Eligible project	Eligibility criteria	Context	SDGs
Wind power	Onshore and offshore wind power projects.	<p>Significant progress has been made to improve access to electricity globally and the number of people living without electricity has decreased below 1 billion. Nevertheless, it is estimated that 700 million people will still lack access to electricity in 2040, most of them living in Sub-Saharan Africa (IEA World Energy Outlook 2018). At the same time, electricity demand is expected to quadruple in Sub-Saharan Africa by 2040 and new investments of some USD 490 billion are required to address the need (McKinsey 2015).</p> <p>Electricity generation and consumption correlate with economic growth. In the poorest and lower middle income countries, 55% of companies say that their biggest challenge is unstable or too expensive electricity (IEG 2016). Energy storage is one way of improving the efficiency and reliability of power grids and enabling the integration of renewable energy, thereby promoting a more reliable and affordable energy supply. The way that developing countries meet their rapidly growing energy demand will be crucial for global efforts to curb climate change. Besides the obvious climate impact, a 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, with investments in wind, solar, hydro and bioenergy as well as energy efficiency and storage.</p>	    
Solar power	Photovoltaics (PV), concentrated solar power (CSP) and solar thermal technology.		
Hydro power ¹	<p>Provided that it complies with either of the following:</p> <ul style="list-style-type: none"> the electricity generation facility is a run-of-river plant and does not have an artificial reservoir; the power density of the electricity generation facility is above 5 W/m²; the life-cycle GHG emissions from the generation of electricity from hydropower, are lower than 100gCO₂e/kWh. 		
Bioenergy	<ul style="list-style-type: none"> Facilities used for electricity generation or heating/cooling generation, using sustainably sourced biofuel and/or biomass as fuel based on bio-waste feedstock from the forestry/agricultural industry. The life-cycle GHG emissions from the facility are lower than 100gCO₂e/kWh. Facilities producing biofuel, biogas, biochar and/or biomass such as biofuel preparation, pre-treatment, bio-refinery and pyrolysis facilities using bio-waste from the forestry/agricultural industry. 		
Geothermal energy	Geothermal power plants and geothermal heating/cooling systems (limited to direct emissions ≤ 100g CO ₂ e/kWh).		
Waste heat	Facilities that produce heat/cool using waste heat.		
Green hydrogen	Manufacture of hydrogen and hydrogen-based synthetic fuels produced from renewable energy sources.		
Measures to facilitate the integration of renewable energy	<ul style="list-style-type: none"> Storage facilities, such as battery, hydrogen, thermal, and pumped storage, intended to manage the intermittency of renewable energy. Transmission and distribution systems and mini-grids, based on renewable energy exclusively. Information and communications technology enabling the effective management and distribution of renewable energy, such as smart grid technology. 		
Manufacturing of renewable energy technologies	Manufacturing of renewable energy technologies and related key components.		

¹ Large dams are excluded, meaning hydroelectric projects that involve a risk of significant negative environmental and social impacts (e.g. by requiring resettlement of local communities).

2. Energy efficiency

Solutions that contribute to cleaner and more reliable and efficient energy consumption in the economy.




Eligible project	Eligibility criteria	Context	SDGs
<p>Low carbon and efficient energy supply</p> <p>Energy efficiency solutions²</p>	<p>Retrofits and improvements of transmission and distribution systems leading to an energy efficiency improvement of at least 30% compared to the pre-investment situation.</p> <p>Measures that improve the carbon footprint or energy efficiency in the respective area by at least 30% compared to the conventional alternative/pre-investment situation. Example projects include the installation of solar hybrid systems, heat pumps and energy-efficient lighting, and changes in industrial processes³ as well as reduction of heat loss and greater waste heat recovery.</p>	<p>Ensuring a reliable and affordable supply of clean energy can generate significant social and economic impacts on all levels of society. Developing countries regularly suffers from power outages and commercial and industrial companies are often heavily dependent on diesel generators. For poorer and rural households, mini-grids and household solar systems are often the cheapest and most flexible options for electricity access, and replace inefficient and polluting alternatives such as kerosene lighting.</p> <p>Finnfund invests in companies that generate cleaner, cheaper, efficient and more reliable energy solutions than the conventional alternatives. As an example, implementing efficient cooling and lighting solutions and solar-diesel-battery hybrid technology can contribute to substantial reductions in GHG emissions for commercial and industrial clients thanks to cutting the use of fossil fuels, improved energy efficiency and the use of solar power.</p>	<p>7 AFFORDABLE AND CLEAN ENERGY</p>  <p>9 INDUSTRY, INNOVATION AND INFRASTRUCTURE</p> 

² Finnfund invests in hybrid-power, off-grid or mini-grid solutions where the majority of the power is generated by a renewable source, such as solar power, but needs to be backed up by battery storage and/or diesel generators. In relation to all new investments in power production using fossil fuels, Finnfund publicly discloses the assessment methodology for alignment with the Paris Agreement and the fossil fuel dependency for investments under this category shall not exceed 30%.

³ Energy efficiency improvements in heavy industries are excluded.



3. Clean transportation

Electric mobility solutions and their supporting infrastructure.

Eligible project	Eligibility criteria	Context	SDGs
Public transport with zero direct tailpipe emissions	Fully electric or hydrogen driven public transportation systems such as metro, buses, trains, trams or ferries.	<p>Transportation contributes significantly to both carbon emissions and air pollution globally. Curbing demand and shifting to cleaner transport modes are key in addressing the problem.</p> <p>Finnfund’s ambition is to engage more in the opportunities provided by electric mobility, not least due to its positive climate impact, but also due to its contribution to reducing pollution-linked deaths. The electric mobility transition in developing countries is likely to start in cities through different kinds of taxi services. The next step will be expansion to rural regions, where there may not even be grid access, meaning solar power will be key.</p>	<p>3 GOOD HEALTH AND WELL-BEING </p> <p>9 INDUSTRY, INNOVATION AND INFRASTRUCTURE </p> <p>11 SUSTAINABLE CITIES AND COMMUNITIES </p>
Vehicles with zero direct tailpipe emissions	Fully electric or hydrogen driven vehicles such as passenger cars, motorbikes and commercial vehicles.		
Supporting infrastructure	Infrastructure related to vehicles with zero direct tailpipe emissions, such as charging stations, hydrogen fuelling stations and electrified railways.		

4. Pollution prevention and control⁴

Solutions contributing to reduced pollution to air and soil.



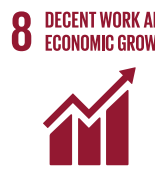





Eligible project	Eligibility criteria	Context	SDGs
Pollution prevention products	Solutions contributing to improved air quality in households and cities, such as electric/solar powered cooking stoves that improve the air quality in users' homes and replace less energy efficient and polluting methods such as open fire cooking.	<p>Air pollution is a major cause of ill health and degradation of natural ecosystems globally. According to the WHO, 91% of air pollution-related deaths occur in low- and middle-income countries. The main causes of air pollution are industry, unclean cooking methods, combustion engine transport, and burning of municipal and agricultural waste.</p> <p>Air pollution also has negative economic effects and the annual global welfare costs of air pollution are set to rise from USD 3 trillion (2015) to USD 18-25 trillion in 2060 (OECD). The main reasons are loss of labour productivity, health expenditure and decrease of agricultural productivity. Reduction of air pollution also has co-benefits such as tackling climate change, as most of the causes are related to the burning of fossil fuels. Solving this problem is a great opportunity for a development financier.</p>	<p>3 GOOD HEALTH AND WELL-BEING</p>  <p>11 SUSTAINABLE CITIES AND COMMUNITIES</p> 
Waste management	Recycling facilities, including the collection, reduction, treatment and processing of waste for reuse and to minimise the amount of waste sent to landfill, thereby making use of and providing a circular economy model for waste materials.		
Waste-to-energy	Waste-to-energy facilities ⁵ using municipal solid waste as feedstock and where the waste incineration process follows a waste hierarchy, ensuring that as much of the waste as possible is reused and recycled before being converted to energy. Facilities often use a mix of different sustainable energy sources such as biomass/fuel, waste, water-thermal and recovered energy.		

⁴ Finnfund assesses environmental and social responsibility and related risks of each investment decision in relation to the IFC Environmental and Social Performance Standards (IFC PS). The IFC PS set requirements related to pollution prevention and waste management, including for example that the investee should recover and reuse waste in a manner that is safe for human health and the environment and, in case it cannot be recovered/reused, the client will treat, destroy, or dispose of it in an environmentally sound manner that includes the appropriate control of emissions and residues resulting from the handling and processing of the waste material.

⁵ Prior to any investment in waste-to-energy plants, Finnfund assesses the following factors of the plant: (i) the overall energy recovery efficiency should be high and at least above 25%, (ii) bottom ash should be managed properly, (iii) metals in the ash should be recovered for use in other processes, and (iv) the average carbon intensity of the plant should be low. The assessment of carbon intensity includes assessment of how the project applies the concept of a waste hierarchy as an overall principle, including working preventively to avoid waste generation, reducing hazardous waste, detoxifying cycles, using waste as the resource it is and taking care of the waste that cannot be reused or recycled in a safe way.

5. Environmentally sustainable management of living natural resources and land use

Solutions contributing to the responsible and environmentally sustainable management of forests, fisheries and aquaculture.


Eligible project	Eligibility criteria	Context	SDGs
Sustainable forests and forestry	Sustainable management of forests, commercial plantations and related wood industries, such as saw mills and plywood mills, where the forest or biomass used in the production is or will be certified in accordance with the Forest Stewardship Council (FSC) standard within a reasonable timeframe.	<p>The Food and Agriculture Organisation of the UN, FAO, estimates that in Africa alone, over two million hectares of forests are lost every year. Population growth, urbanisation and a growing middle-class add to pressure on the remaining natural forests. Sustainable, responsible forestry is one key way to curb deforestation and climate change. In Africa, for example, it can already be seen that the timber produced through sustainable plantations is easing the pressure on natural forests.</p> <p>Finnfund is a leading global investor in forestry. We invest in commercial plantations and related industries, such as saw mills and plywood mills, primarily in Sub-Saharan Africa and Latin America. We also invest in sustainable fisheries and fish farming as these play a crucial role in the efforts to feed future generations while also reducing the environmental impacts of food production and providing vital formal employment opportunities for local communities.</p>	       
Sustainable aquaculture and fisheries	<ul style="list-style-type: none"> • Sustainable fisheries that are certified, or will be certified within a reasonable timeframe, in accordance with the Marine Stewardship Council (MSC). • Sustainable fish farming that is certified, or will be certified within a reasonable timeframe, in accordance with the Aquaculture Stewardship Council (ASC). 		

6. Climate change adaptation

Context- and location-specific adaptation efforts of the private sector.

Finnfund’s approach:

A key characteristic of adaptation is that it is context and location specific. Producing stand-alone, exhaustive lists of activities that could be considered adaptation finance is therefore not possible. Instead, Finnfund has developed an approach to identify private-sector investments with the potential for addressing climate risks and/or opportunities for creating resilience benefits at very early stages of the investment process. The first step of the process is a context- and sector-specific climate risk assessment that utilises common online risk assessment tools, such as ThinkHazard and ND-GAIN. The risk assessment is followed by an assessment that screens whether the economic activity (or part of it) has the potential to increase adaptive capacity in the company or in its operating environment, thereby bringing resilience benefits. If climate risks – and therefore adaptation needs and potential – are identified, a more thorough assessment is conducted during the due diligence phase. This more detailed assessment is followed by an analysis of the company’s capacity to adapt and respond to identified climate risks. If shortcomings are detected, further requirements and support could be agreed upon before the investment decision, or could be included in the Environmental and Social Management Action Plan. If the activity is anticipated to create resilience benefits for the company, its stakeholders, or the wider community, it is necessary to understand and describe how exactly these benefits are created. The due diligence phase establishes a baseline for these expected impacts against which progress in adaptation can be monitored and documented.

Eligible project	Eligibility criteria	Context	SDGs
Adapted activities	Aimed at strengthening an asset or economic activity to withstand an identified physical climate risk over its lifetime.	<p>Even if the ambitious target of the Paris Agreement of limiting the global temperature increase to 1.5°C is achieved, we are bound to live with the impacts of ongoing climate change. Global climate change adaptation costs are expected to range from a staggering \$140 billion to \$300 billion per annum by 2030 (UNFCCC, 2019) while only some 5% of total climate finance is directed at adaptation efforts (CPI, 2019).</p> <p>To close the adaptation finance gap, the role of the private sector will become increasingly important. To date, private sector approaches to adaptation finance have been dominated by the avoidance of harm and the management of risk with less attention being paid to capturing opportunities. Finnfund’s view is that capturing the ‘upside’ of adaptation can (1) boost resilience and (2) mobilise private sector expertise and finance for adaptation activities. Finnfund, with its track record of managing risks while creating impact, can play an important role in increasing financing for adaptation and in further developing tools for resilience building. With the beneficial opportunities better identified, financing from the private sector is likely to follow.</p>	<p>13 CLIMATE ACTION</p> 
Adaptation-enabling activities	Aimed at reducing the vulnerability and building the resilience of a wider system or systems such as a community, ecosystem, or city.		

Social Project categories

Target population

Eligible Social Projects target the provision of products and services contributing to improved living and health conditions for underserved groups in DAC countries, owing to the lack of quality access to essential goods and services. Depending on the context and service/product provision in question, underserved groups can refer to the unbanked or underbanked, unconnected or poorly connected people, farmers in rural value chains, rural populations, low-income populations and vulnerable groups such as youth and women with limited access to specific services. Each Social Project is assessed based on its potential to contribute to a positive impact for the target population of relevance and our Development Effect Assessment Tool (DEAT) forms the basis for this assessment. Each Social Project is also subject to impact indicators which are monitored throughout the investment period.

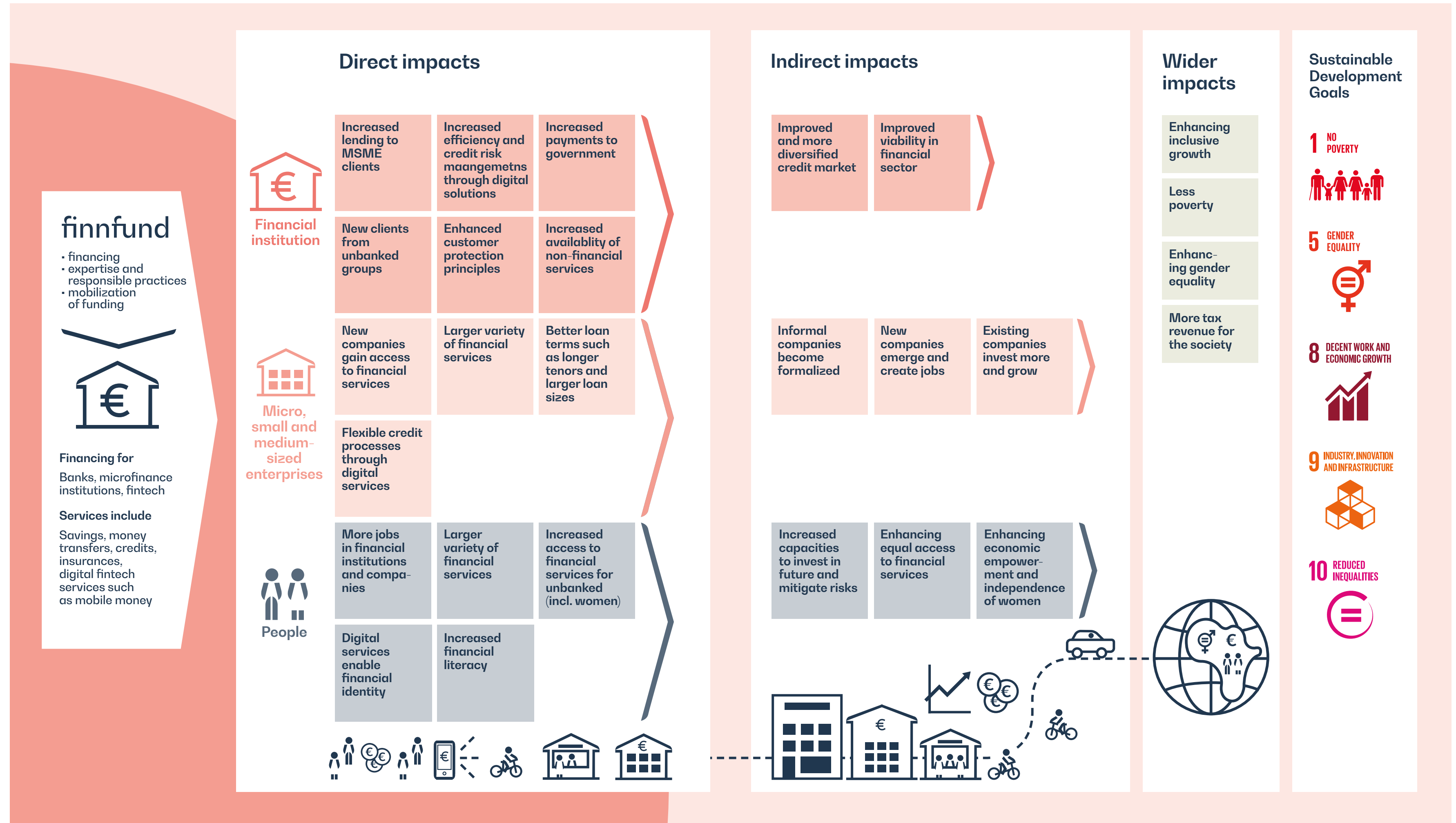











Figure 4: Illustrative example of the chain of impacts to which Finnfund’s investments in financial institutions are expected to contribute. Theories of change for Finnfund’s other core sectors can be found on our [website](#).







1. Access to essential services

Solutions contributing to improved access to essential services such as financial services, health, education, digital infrastructure and solutions for the target population.

Eligible project	Eligibility criteria	Context	SDGs
Financial inclusion	<p>Investments in fintech companies and financial institutions (including banks, insurance companies, non-banking financial institutions and microfinance institutions) that are focused on providing financial services and products (savings, money transfers, credit, insurance, and digital fintech services such as mobile money) to the unserved and underserved. The following criteria apply for investments under this category:</p> <ul style="list-style-type: none"> Investments in financial institutions should be earmarked for the financing and/or insurance of unserved and underserved groups only, meaning groups with limited or no access to mainstream financial services such as MSMEs (micro, small and medium-sized enterprises), women, youth, low-income individuals/households and individuals/households in rural areas. Fintech companies and microfinance institutions need to derive at least 90% of their revenues from providing financial services to unserved and underserved groups (as exemplified above). Microfinance institutions are required to comply with the Client Protection Principles, ensuring responsible, sustainable lending practices, data privacy and respect of human rights. 	<p>Financial inclusion is about making financial products and services accessible and affordable to all. Access to financial services plays a significant role in reducing poverty, creating jobs and bridging the gender equality gap. Over a third of the world’s adult population – 1.7 billion people – have limited or no access to official financial services and most of them live in Sub-Saharan Africa and Asia. Moreover, out of the 5.4 billion emerging consumers worldwide, only about 500 million have any form of insurance to protect them against daily and catastrophic risks. Financial inclusion is a key enabler to reduce poverty and boost prosperity and is featured as a target and it is featured as a target in 8 of the 17 SDGs (SDGs 1, 2, 3, 5, 8, 9, 10, and 17).</p> <p>Finnfund promotes financial inclusion by investing in selected financial service providers including, for example, commercial banks, inclusive insurance and financial innovations, helping them to reach new and previously excluded people. Finnfund’s investees typically provide financial services to MSMEs as well as individuals who have few alternative sources of reliable and formal banking services. This is important as a significant proportion of formal jobs in developing countries are in small companies that struggle to access traditional financial services to grow. Banking services also play an important role in empowering women. Gender equality and, more specifically, women’s improved access to financial services is an increasingly significant criterion for us in selecting new investments. All the investments are assessed through 2X Challenge criteria, which look at the investee’s ability to both reach women and lower barriers for access, and also at a financial institute’s own organisation and how it supports women in the workplace.</p>	<p>1 NO POVERTY  5 GENDER EQUALITY  8 DECENT WORK AND ECONOMIC GROWTH  9 INDUSTRY, INNOVATION AND INFRASTRUCTURE  10 REDUCED INEQUALITIES </p>

Eligible project	Eligibility criteria	Context	SDGs
<p>Affordable health products and services⁶</p>	<ul style="list-style-type: none"> High-quality and reasonably-priced healthcare products/services, such as hospitals, private health infrastructure, nursing homes or other medical care facilities as well as medical equipment and related product manufacturers. Products/services aiming to improve women’s right to make their own informed decisions regarding sexual relations, contraceptive use and reproductive health care, for example relating to menstrual health and hygiene. <p>Access and affordability are assessed based on the effect on: i) the availability based on the effect on: (i) the availability of previously scarce or unavailable products and services through increased or new access to customers and end-users, ii) the reliability of the products or services delivered through increased quality, stability and frequency of supply, or iii) the affordability of products or services through lower prices to customers and end-users.</p>	<p>In many DAC countries public healthcare systems are extremely low in quality and do not have the capacity to service all the population. In the low-income, non-insured population, where women and children are the most exposed, most do not have access to reliable healthcare services at all.</p> <p>Even though major progress has been made in improving global health in recent years, at least half the world’s population is still without access to essential health services and in rich and poor countries alike, a health emergency can push people into bankruptcy or poverty. Collective efforts are required on these and other fronts to achieve universal health coverage and sustainable financing for health; address the growing burden of non-communicable diseases, including mental health; and tackle antimicrobial resistance. Moreover, women and girls are too often denied decision-making power regarding sexual relations, contraceptive use and reproductive health care. Women and girls’ capacity to make those crucial decisions for themselves—and to be able to act on them—is essential to their empowerment and the full exercise of their reproductive rights (The Sustainable Development Goals Report 2019, UN).</p>	<p>1 NO POVERTY  3 GOOD HEALTH AND WELL-BEING  5 GENDER EQUALITY </p>
<p>Education⁶</p>	<p>Products/services focused on providing improved quality of and access to education and vocational training.</p>	<p>By 2030, more than 300 million young people will enter the job market across Sub-Saharan Africa. A high-performing primary and secondary learning system unlocking the doors of university will be critical to educate and train the many. Yet most of the institutions for basic education across the African continent still perform poorly, plagued by overcrowded classrooms, scarcity of qualified teachers and lack of equipment. On the other side, elite private schools remain unaffordable to a large majority of the population. Closing the higher education gap is also important, as public universities in Sub-Saharan Africa can only educate a third of all applicants.</p>	<p>4 QUALITY EDUCATION </p>



⁶ Projects in upper middle income countries are excluded from this category.

Eligible project	Eligibility criteria	Context	SDGs
Digital infrastructure	<p>Digital infrastructure companies, within the emerging markets digital value chain, focused on closing connectivity gaps at a regional level and belonging to the following segments:</p> <ul style="list-style-type: none"> • Infrastructure development: Cellular towers, telecom-energy solutions (T-Esco) and data centres⁷ • Connecting the unconnected: rural connectivity solutions in areas where there are currently no or very limited connections available • Improving access to data: investments in backhaul infrastructure such as fibre, which make data better and more affordable and with high development impacts 	<p>Building digital infrastructure and developing digital solutions can contribute to solving many global challenges. Digital solutions increase productivity and improve access to products and services, thus promoting and accelerating achievement of all 17 SDGs. Increased digital connectivity not only supports economic growth but also facilitates inclusive access to critical services, for instance, in finance, education and health, and provides possibilities for small businesses to connect with global value chains. Digital technology also presents an opportunity to narrow gender gaps by enhancing access to welfare services, identification and financial services and information. This can lead to increasing privacy, bargaining power, household welfare and female labour force participation.</p> <p>Major infrastructure investments are needed to enable access to basic mobile services and more affordable and higher speed internet connection across Finnfund’s target regions. Our digital infrastructure investments are focused on rural connectivity, access to data and digital solutions that increase productivity and improve access to products and services.</p>	<p>3 GOOD HEALTH AND WELL-BEING </p> <p>4 QUALITY EDUCATION </p> <p>5 GENDER EQUALITY </p> <p>8 DECENT WORK AND ECONOMIC GROWTH </p> <p>9 INDUSTRY, INNOVATION AND INFRASTRUCTURE </p> <p>10 REDUCED INEQUALITIES </p>

⁷ Prior to any investment in data centres, Finnfund assesses the environmental and climate impact of the facility, such as the energy efficiency rate, use of renewable energy sources, and waste heat recovery rate.

2. Affordable basic infrastructure

Solutions contributing to improved access to clean drinking water and sanitation.

Eligible project	Eligibility criteria	Context	SDGs
Water and sanitation	Facilities and technologies designed to treat, distribute and conserve water, such as processing of wastewater, urban drainage systems, water purification processes, improved drinking water quality, improved reliable fresh water supply and increased water use efficiency, and processing of sanitation waste.	Unless the rate of progress quadruples, billions of people around the world will be unable to access safely managed household drinking water, sanitation and hygiene services in 2030 (Progress on household drinking water, sanitation and hygiene 2000-2020: Five years into the SDGs, WHO, UNICEF 2021). Lack of safely managed water and sanitation is a major factor contributing to ill health, and targeted investments in improving access can thus save millions of lives per year and also improve school attendance – ultimately enabling regions to climb out of poverty and better compete in the global marketplace (The Sustainable Development Goals Report 2019, UN).	 

3. Food security and sustainable food systems

Solutions contributing to food security and sustainable food systems.





Eligible project	Eligibility criteria	Context	SDGs
<p>Food security and sustainable food systems</p>	<p>Agricultural projects in a certified⁸ sustainable food value chain with the ultimate goal of improving the productivity of agriculture in a sustainable manner, creating jobs and wealth, and ensuring food security under the changing climate. Agricultural projects may include investments in agriculture and other primary production, food processing and distribution.⁹</p>	<p>Improving agricultural productivity is essential for feeding the world’s growing population. 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 poorly producing plants and plant varieties, such as corn and cassava, mainly for their own and local consumption. Agribusinesses play a key role in the agricultural value chain, as they are often strongly associated with local, small-scale farmers, providing a marketplace for local produce and helping farmers improve their productivity. They usually operate outside cities and towns, and they are often important and sometimes even the sole local employer. The jobs that agribusinesses create are also important from a gender equality perspective: agribusinesses often generate jobs and provide training for women, strengthening their role in economies and helping them in supporting their families.</p> <p>Another challenge faced by farmers is crop and food waste. In developing countries, food waste occurs mainly at the early stages of the food value chain, as farmers’ capacity to process and store their crops is limited and inefficient logistical chains restrain smallholder farmers’ access to markets. In Africa, this leads to an estimated average loss of 25% of the total agricultural production, and the continent is a net importer of food. Investing in sustainable food value chains in developing countries is therefore crucial to enhancing inclusive growth, reducing poverty, and strengthening food security.</p>	

⁸ Certification depends on the type of activity, such as Global GAP for agriculture and UTZ for coffee, cocoa and tea.

⁹ Sustainable food value chains are defined as the full range of farms and firms and their successive coordinated value-adding activities that produce particular raw agricultural materials and transform them into particular food products that are sold to final consumers and disposed of after use, in a manner that is profitable throughout, has broad-based benefits for society, and does not permanently deplete natural resources (definition based on the Food and Agriculture Organization of the United Nations Developing sustainable food value chains Guiding principles, 2014).

4. Employment generation

Businesses committed to high standards in labour and working conditions, human rights and/or gender equality.

Eligible project	Eligibility criteria	Context	SDGs
<p>Employment generation and improved livelihoods</p>	<p>Investments in MSMEs contributing to employment creation directly and indirectly based on assessment of the investee company’s effect on direct employment and on how much additional productive and permanent direct employment will be created once the project is fully operational. Investee companies must also be committed to reaching compliance with IFC Performance Standards (IFC PS2, labour and working conditions), ILO Core Labour Standards, and UNGP (Finnfund’s Human Rights Statement), as well as, where applicable, contributing to enhancing gender equality (Finnfund’s Statement on Gender Equality).</p>	<p>Decent work and productive employment are vital elements of sustainable poverty reduction. 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 are among Finnfund’s key goals. Particularly in Africa, the population is growing much faster than new jobs can be created. The International Labour Organisation (ILO) has estimated that the number of productive jobs in the continent would have to increase by over 300 million – or some 26 million per year – until 2030, more than doubling the number of existing jobs by 2030.</p>	<p>1 NO POVERTY  5 GENDER EQUALITY  8 DECENT WORK AND ECONOMIC GROWTH  10 REDUCED INEQUALITIES </p>

2. Process for project evaluation and selection

Finnfund's investment process and criteria

The evaluation and selection process for Eligible Projects is a key process in ensuring that the amount equivalent to the net proceeds from Green, Social and Sustainability Bonds is allocated to Eligible Projects that meet the criteria in the Framework.

All potential Eligible Projects are assessed according to the standard investment process, which intends to ensure compliance with applicable national rules and regulations, Know-Your-Customer processes, and Finnfund's own policies and guidelines, such as the Credit, Anti-Money Laundering, Counter-Terrorist Financing, and Sanctions policies. Our policy on

responsible tax practices applies to all projects we finance, including principles and practices to assess and promote tax responsibility, as well as responsible tax clauses in our investment agreements.

Finnfund also evaluates other effects on the economic and social development of the target country, as well as factors such as the likelihood of the project's success, internal sector-specific credit directives related to high ESG-risk sectors, and observance of human rights, and relevant physical and transitional climate risks, as well as biodiversity-related risks and opportunities for net gain.

Environmental and social responsibility and related risks are assessed as part of each investment decision and monitored

throughout the investment period. These risks are assessed in relation to the IFC Environmental and Social Performance Standards (IFC PS) and the World Bank Group Environmental, Health, and Safety Guidelines (EHS Guidelines). Based on the harmonised guidelines of the European Development Finance Institutions, they are the standard for all high and medium-risk (A-B) projects. For low-risk (C) projects, the minimum level is set by local legislation.

If the operations do not comply with applicable standards and guidelines, an Environmental and Social Action Plan is agreed with the company. The plan sets out measures and a schedule for compliance. Finnfund's experts monitor the progress of the Action Plan as part of regular monitoring.

The company's operations often do not meet all applicable standards prior to the investment decision, and it is therefore essential to assess the company's ability to develop its operations within an agreed timeframe. Investments typically close compliance gaps within the first 1-3 years of the Finnfund investment.

Evaluation and selection of Eligible Projects

Finnfund has established a process to ensure that Eligible Projects meet the criteria set out in this Framework. To oversee this process, Finnfund has established a Sustainability Bond Committee ('SBC') comprising the Chief Financial Officer, the Director of Impact and Sustainability and a member of the Treasury team. The SBC will convene every 6 months or when otherwise considered necessary.

The process for project evaluation and selection consists of the following steps:

- From existing and new investments, sustainability experts and representatives within Finnfund evaluate potential Eligible Projects' compliance with the Green and Social Project categories presented in this Framework. Based on the analysis, the experts can nominate investments as potential Eligible Projects.

- When potential Eligible Projects have been nominated, a list including their environmental and/or social details will be reviewed by the SBC. The SBC is solely responsible for the decision to acknowledge the green/social project as "Eligible", in line with the Eligibility Criteria in this Framework. Green and Social Projects will be tracked using a dedicated Sustainability Bond Framework Register. A decision to allocate net proceeds will require a consensus decision by the SBC, giving each committee member veto power. The decisions made by the SBC will be documented and filed.

For the avoidance of doubt, the SBC holds the right to exclude any Eligible Project already funded by Green, Social and/or Sustainability Bond net proceeds. If an Eligible Project is paid back or amortised, or for other reasons loses its eligibility, funds will then follow the procedure under Management of Proceeds until reallocated to another Eligible Project.



Technological solutions can provide women and marginalised groups, such as people living in remote areas, vital services. Photo: Kasha

3. Management of proceeds

Finnfund will use a Sustainability Bond Framework Register to monitor that an amount equal to the net proceeds from Green, Social and/or Sustainability Bonds issued is allocated to Eligible Projects. The purpose of the register is to ensure that net proceeds only support the financing of relevant Eligible Projects or repay any Green, Social and/or Sustainability Bonds outstanding. The Register will form the basis for the impact and allocation reporting.

In the event that the total outstanding net proceeds of the Green, Social and Sustainability Bonds exceed the value of the Eligible Projects in the Sustainability Bond Framework Register, such an unallocated amount will temporarily be placed in the liquidity reserve and managed accordingly by Finnfund.



Renewable energy is clearly a sector that can generate positive impacts at both global and local level. Lake Turkana Wind Power, with a total capacity of 310 megawatts, is the largest wind park on the African continent and the biggest single private sector investment in Kenya's history. Photo: LTWP

4. Reporting

Finnfund will annually, until full allocation and in the event of any material developments, provide investors with a publicly available Sustainability Bond Report describing the allocation of proceeds and the social and environmental impact of the Eligible Projects. The Sustainability Bond Report will, to the extent feasible, also include a section on the methodology, baselines and assumptions used in impact calculations.

Allocation report

The allocation report will include the following components:

- Nominal amount of outstanding Green, Social and Sustainability Bonds
- Amounts allocated for each project category
- Relative share of new financing versus refinancing
- Descriptions of selected Eligible Projects financed

Impact report

The impact report aims to disclose the environmental and social impact of the Eligible Projects financed under this Framework, based on Finnfund's share of each project, where feasible and subject to data availability. As Finnfund can finance a large number of smaller Eligible Projects in the same project category, the impact report can, to some extent, be aggregated. The impact assessment will, if applicable, be based on the impact indicators presented in the table below.

Green projects	Impact indicators	Social projects	Impact indicators
Renewable energy	<ul style="list-style-type: none"> Renewable energy generation (MWh per year) GHG emissions avoided (tonnes per year) 	Access to essential services	<p>Financial inclusion</p> <ul style="list-style-type: none"> Micro/SME loans (number, volume, %women clients) Housing loans (number, volume, %women clients) Mobile loans (number, volume, %women clients) <p>Affordable health products and services</p> <ul style="list-style-type: none"> Number of hospital beds (total, %women) Number of consultations (total, %women) <p>Education</p> <ul style="list-style-type: none"> Students (number, % women) <p>Digital infrastructure</p> <ul style="list-style-type: none"> Number of users / beneficiaries(#)
Energy efficiency	<ul style="list-style-type: none"> GHG emissions avoided (tonnes per year) 		
Pollution prevention and control	<p>Waste management</p> <ul style="list-style-type: none"> Quantity of recycled material (tonnes per year) <p>Waste to energy</p> <ul style="list-style-type: none"> Energy generation (MWh per year) GHG emissions avoided (tonnes per year) 	Affordable basic infrastructure	<p>Water and sanitation</p> <ul style="list-style-type: none"> Quantity of treated wastewater and/or supplied freshwater (cubic metres per year) Number of customers/beneficiaries of investee's products relating to improved water quality or sanitation
Environmentally sustainable management of living natural resources and land use	<p>Forests and forestry</p> <ul style="list-style-type: none"> Forest area (hectares) Forestry certification scheme (if applicable) Net carbon sequestration (tonnes per year) (if available) <p>Fisheries and aquaculture</p> <ul style="list-style-type: none"> Certification scheme Tonnes of fish produced (if available) 		
Climate change adaptation	Type of investment and the purpose	Food security and sustainable food systems	<ul style="list-style-type: none"> Smallholder farmers reached (total, % women) Agricultural loans (number, volume, % women)
		Employment generation and improved livelihoods	<ul style="list-style-type: none"> Jobs (total, % women) Indirect jobs (total, % women)

5. External review

Second-party opinion

Sustainalytics has provided a second-party opinion to this Framework, verifying its credibility, impact, and alignment with the ICMA Green Bond Principles 2021 and Social Bond Principles 2021, as well as with the Sustainability Bond Guidelines 2021.

Post-issuance review

An independent external party, appointed by Finnfund, will, on an annual basis, until full allocation and in the event of any material developments, provide a review confirming that an amount equal to the net proceeds has been allocated to Eligible Projects.

Publicly available documents

The Sustainability Bond Framework and the second-party opinion will be publicly available on Finnfund's website, together with the post-issuance review and the Sustainability Bond Report, once published.

finnfund

For more information,
please visit
www.finnfund.fi