
Impact and sustainability

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Impact investments for a more sustainable world

Responsible businesses play an important role in resolving great global challenges including poverty, inequality and climate change. Meeting the UN's Sustainable Development Goals on a global scale, companies must become more closely involved.

Finnfund is a development financier and professional impact investor tasked with building a more sustainable world by investing in responsible, profitable companies in developing countries.

We work with private companies operating in developing countries, offering equity risk financing, long-term investment loans, mezzanine financing and specialist expertise related to investments in developing countries.

We provide long-term financing for sustainable development projects that would not otherwise be executed. Finnfund's financing often acts as the lever for mobilising commercial finance.

Finnfund requires its investments to be profitable, responsible in terms of the environment and society, and measurable in terms of development impact.

Corporate responsibility and impact at Finnfund

Finnfund advances corporate responsibility both in its own operations and those of its investees. Responsibility for the economic, social and environmental impacts of operations as well as good,

transparent governance are key factors guiding Finnfund's decision-making.

Finnfund stresses measurable [impact of its investments](#). With impact we mean investments' development effects that promote sustainable development.

In practice, this means conducting a prior appraisal of [corporate responsibility](#) and [development impact](#) before making investment commitments and tying disbursements to the implementation of actions to promote corporate responsibility. Every investment is assessed and monitored [throughout its life cycle](#).

Investments may have positive impacts on the surrounding society directly (good jobs, clean energy, etc.) or indirectly (such as employment effects in the supply chain). Investments also have wider impacts on society, such as tax revenues, poverty reduction and climate change mitigation.

On one hand, corporate responsibility is part of risk management, but on the other it and contributes to positive development impacts. Impact arise from both what the company does and how responsibly it operates. For that reason, we consider improvements to a company's responsibility to be part of the impact of our operations.

Impact management and resources

In 2018, Finnfund activities on the environmental and social responsibility and development impacts of its investments were under the leadership of the Managing Director in collaboration with the Director of Risk Management and Impact.

The Managing Director, in co-operation with the Director of Administration, was responsible for the corporate responsibility of Finnfund's own activities. The Board of Directors monitors the management of corporate responsibility as an

Finnfund requires its investments to be profitable, responsible and impactful

Responsibility and impact are monitored throughout the project's life cycle

aspect of its stewardship of the company.

Specialists in environmental and social responsibility, corporate governance, tax responsibility and development impact ensure that the risks and effects related to the corporate responsibility and impact of all Finnfund investees are assessed and monitored throughout the projects' life cycles.

They constantly develop assessment and monitoring methods, collaborate with international networks of experts and train other Finnfund personnel when needed.

The specialists in environmental and social responsibility and the development impact advisors work in the risk management and impact unit. In terms of corporate governance and tax respon-

sibility, the responsibilities are divided among the specialists in the investment function, the risk management and impact unit and the legal team.

Finnfund currently employs five specialists in environmental and social responsibility and three development impact advisors.

Each staff member complies with Finnfund's corporate responsibility principles.

Corporate responsibility principles and practices

Finnfund's own operations and those of the companies it invests in must be sustainable in terms of the environment, people and society. Assessing and managing environmental and social impacts is a key part of Finnfund's financing process.

Finnfund's first environmental policy was adopted in 2005. Since then, it has been updated several times and, in 2013, its name was changed to [environmental and social policy](#). The policy is based on compliance with international standards and Finnfund's strategy.

Valle Solar, Honduras



Finnfund has also signed the joint principles of sustainable development and responsible financing drawn up by the European Development Finance Institutions (EDFI). Finnfund is committed to complying with these principles in its operations. These principles are consistent with the UN's Global Compact.

Finnfund applies the European development financiers' common [blacklist, which lists the sectors that we do not finance](#).

In 2018, we decided to update our environmental and social policy in the course of 2019.

When Finnfund assesses investments, it complies with the International Finance Corporation's Performance Standards, as well as common procedures and requirement levels with other European development financiers.

Finnfund's environmental and social responsibility policy is based on, among others, the UN Global Compact, the UN's Guiding Principles on Business and Human Rights, and the International Labour Organization's Fundamental Principles and Rights at Work.

Finnfund has also entered into a commitment with 24 other development financiers on corporate governance principles and guidelines on how development financiers promote good governance within the companies they finance, thereby supporting sustainable economic development in developing countries.

Moreover, Finnfund has an environmental and social responsibility manual for internal use, describing the procedures and responsibilities used in assessments. Project assessments, monitoring and any improvement measures take place accordingly. Assessment and monitoring cover financed projects and supply chains.

In practice, the environmental and social risks related to projects and the potential for advancing sustainable development vary considerably depending on the investee, sector, country and many other factors. Projects eligible for Finnfund financing must meet not only the environmental and social responsibility requirements under local legislation but also relevant international standards.

Finnfund's first environmental policy was adopted in 2005

When Finnfund considers financing a project, it pays special attention to identifying, managing and mitigating environmental and social risks, as well as reinforcing the positive impacts. Corporate responsibility is monitored, assessed and, if necessary, improved throughout the life cycle of the project.

Finnfund's specialists visit projects during monitoring and, if necessary, use external specialists for support. Companies that receive financing must commit to developing and maintaining a management system for relevant environmental and social responsibility matters as well as ensuring sufficient expert capacity at every phase of the project. The companies regularly report to Finnfund on the implementation of these commitments.

Read more about Finnfund's [corporate responsibility](#) and [investment process](#).

Transparency and cooperation with stakeholders

Transparency is a central principle guiding Finnfund's operations. We publish as much information as possible about the principles guiding our operations, the practices we apply and the results we achieve. Finnfund encourages its investee companies and its partners to operate transparently and comply with good corporate responsibility practices.

Furthermore, Finnfund is engaged in continuous dialogue with its various stakeholders in Finland and abroad. We strive to identify stakeholders' expectations and any concerns they may have, and to respond to them quickly and transparently.



CASE

Finnfund accelerating M-Birr's growth

"At first, I thought this sort of financial service was a joke," admits **Eyob Lema**, a 30-year-old from Addis Ababa.

"In our area, there are banks on almost every corner, but they do not serve people like us. You can't go into a bank and deposit 20 birr (EUR 0.60)," Eyob says.

M-Birr is Ethiopia's first money transfer and payment service that is widely used among poor people in rural areas. Remittances from relatives who have moved to cities or other countries are an important source of income for them. In the past, it was necessary to deliver money in cash, and family members or

bus drivers helped with this, but this increased the costs and risks.

The service has operated since 2015 and has gained popularity rapidly. Finnfund has supported M-Birr since 2011, when it became one of the owners of a company called MOSS, which developed the service. In 2018, an important stage was reached when Finnfund was joined by the European Investment Bank as a financier.

Read more [about M-Birr](#)



CASE

Responsible avocados from Tanzania

Coffee-growers in the Kilimanjaro area of Tanzania have seen their income plummet in recent years as the price of coffee has fallen. Responsible avocado cultivation has now become a promising alternative. For this reason, Finnfund invested in a producer name Africado.

Africado is Tanzania's first avocado producer on an international scale. It cultivates the Hass variety intended primarily for the European market. The company works in close cooperation with local small farmers, providing work and livelihoods for thousands of people.

The company holds Global GAP certification, a scheme that promotes international, safe and responsible cultivation practices. In 2016, it became the second company in Africa to win the GAP prize, which was awarded to the company for its farmers' programme.

"Thanks to Finnfund's financing, Africado has been able to make new investments. As Africado expands its production and cultivates new varieties, it can develop a sustainable business that provides financial benefit for the local community and for the country as a whole by creating jobs and generating export revenues," said **James Parsons**, [CEO of Africado in February 2019](#).

Read more about [Africado](#).

Finnfund's most important stakeholders are its owners, investee companies and co-financiers as well as the key operators in development policy, such as civil society organisations, Finnish businesses, European sister organisations and other development financiers and investors. In some cases, other important stakeholders may include the local authorities in target countries and other parties linked to the projects financed by Finnfund, such as local communities, the authorities and civil society.

In 2018, Finnfund began preparing a comprehensive stakeholder survey. The survey will be conducted in 2019.

Finnfund updated its disclosure policy in autumn 2018. With the update the text was made clearer and more information, particularly with regard to companies financed via funds, was disclosed.

Finnfund updated its [website](#) and other communication materials as part of the roll-out of the company's new strategy and updated graphic image. This was done to promote transparency and greater clarity of information.

In 2018, Finnfund engaged in active dialogue with various stakeholders both in Finland and internationally. We held several discussion events and various meetings, particularly in the process of developing our human rights policy and gender statement, as well as calculating the climate impact of our investments.

We asked a wide range of stakeholders to comment our draft human rights policy, completed at the end of the year, and we made the draft available on Finnfund's website in Finnish and English. We will continue the same practice as we finalise develop our gender statement.

Through the new website we strive to make our grievance mechanism more accessible. In addition to the grievance channels provided by our investee companies, Finnfund has its own grievance and whistleblowing mechanism: if anyone suspects breaches of human rights in Finnfund's operations or in relation to the operations of Finnfund investee companies, he or she can submit a report via Finnfund's website, by phone or by post.

The stakeholders of investee companies can also talk to Finnfund's representatives directly when they visit project site. Finnfund protects the privacy and safety of whistleblowers. The grievance mechanism is designed so that it allows also anonymous filing of reports.

In 2018, one suspected case of malpractice relating to an investment in the preparatory phase was brought to Finnfund's attention. Subsequently, preparation of the project was discontinued, and no investment commitment was made.

Lake Turkana Wind Power, Kenya



Development impact

Finnfund only invests in projects with clearly positive development impacts. The impacts vary from one investment to the next: some may focus on creating good jobs, while others may generate, for example, clean energy.

The development impact is analysed on different levels:

- Direct impacts arising from the company's operations (such as good jobs, increased electricity generation, improved infrastructure)
- Indirect impacts arising from operations (such as the benefit to contracted farmers, preventing deforestation, slowing the loss of biodiversity, lower price and better reliability of electricity supply)
- Large-scale societal impacts (such as tax revenues for public administration, economic growth, mitigation of climate change).

Companies often carry out various community projects with local groups alongside their core businesses. These typically include projects related to education, health, water supply or sanitation. These are typical for companies operating in remote rural areas or regions that often lag behind in developmental terms.

Finnfund assesses and monitors the development impact its investee companies before making an investment commitment, as well as throughout the life cycle of the investment.

In 2018, Finnfund further developed the Development Effect Assessment Tool (DEAT) which it uses to conduct prior assessments of the [development impact, as well as the theories of change \(TOC\) developed for Finnfund's four priority sectors](#). During the year, Finnfund also commissioned separate evaluations of the impacts of renewable energy projects in Cape Verde, Honduras and Kenya.

Reporting on development impacts

Every year, Finnfund presents the impact of its

entire portfolio in a development impact report. Investee companies can provide reliable information about their impacts only once their annual financial statements are ready. For this reason, Finnfund's development impact report always contains data for the preceding year.

In 2017, the companies financed by Finnfund:

- created even more jobs: directly financed companies directly employed 50,900 people and companies that were indirectly financed through funds employed 75,400 people, one-third of all these were women
- generated a total of 6,065 gigawatt hours of electricity
- managed 867,000 hectares of forests, 814,900 hectares of which is already covered by Forest Stewardship Council certification
- collaborated with 2,038,600 small farmers or cattle farmers, of whom 80 per cent were women
- granted 845,400 loans for agricultural development, of which 78 per cent to women
- granted 5,900,000 loans to microenterprises and SMEs with a total value of EUR 5,900 million.
- paid a total of EUR 423 million in taxes and levies.

Read more about [development impact assessments](#).

Read more about [development impact in 2017](#).

Individual impact assessments

In addition to assessing the impact of the portfolio as a whole, Finnfund commissions external evaluations of the realised development impacts of its projects. In 2018, evaluations of this type were conducted for the energy projects in Cape Verde, Honduras and Kenya.

[Lake Turkana Wind Power](#) in Kenya is Africa's largest wind farm and the largest ever individual investment in Kenya. The company has built a 310-megawatt wind power plant in the remote and very poor district of Marsabit.

The evaluation that examined the construction phase, which began in 2013, concluded that it led to significant development impacts. The company



Silverlands, sub-Saharan Africa

has built more than 200 km of roads, which have reduced the travel time between Loiyangalani and Laisamis from two days to four hours, and the mobility of people and goods has grown exponentially, transportation prices have fallen, and food has become cheaper. In addition, the company employed approximately 2,000 local workers during the construction phase.

In Cape Verde, the evaluation focused on the Cabeólica wind farm, which is located on four different islands and has a generation capacity of 25.5 megawatts. In Honduras, three hydroelectric power plants were examined – La Vegona, Los Laureles and Mezapa – as well as the Valle

Solar solar power plant, which have a combined capacity of 104 megawatts.

According to the evaluation, the power plants have had substantial economic impacts: they have increased electricity generation, replaced millions of litres of diesel that previously fuelled generators, lowered the price of electricity, reduced the number of power cuts and increased the working time of companies, thereby also increasing their productivity, along with gross domestic product and employment.

Read more about [evaluations](#).

Economic responsibility

The key to economic responsibility is profitable business based on responsible principles that ensure its continuity. For this reason, one of Finnfund's investment criteria is financial profitability: financially stable companies are able to meet their corporate responsibility requirements and generate sustainable development impacts.

The same principle also applies to Finnfund's own operations: in order to fulfil its mission over the long term and be able to carry the major financial risks of its business, the development financing operations must be financially profitable and the company's capital structure strong. Finnfund does not distribute profits to its owners – instead, it invests its returns into new investments.

Efficiency and profitability of Finnfund's operations

Although the Finnfund Act states that the company's purpose is not to generate a profit for its shareholders, all State-owned companies must be self-sustaining in accordance with the State's ownership policy. This means that their operating income must be sufficient to cover the costs and risks of their activities.

The State's ownership policy sets profitability and cost-efficiency as the owner's objective. According to the policy, also those State-owned companies with specific functions must be profitable businesses.

Prerequisites for financially sustainable operations include identifying risks, pricing them

correctly and keeping the ratio of risks to the company's risk-bearing capacity under control. Finnfund's financing is not grant or otherwise soft, although, in line with its strategy, Finnfund aims to make blended financing available for its projects.

The cost-efficiency of Finnfund's operations was assessed in 2018 by comparing the operating costs with the value of investment assets. Finnfund's profitability is primarily assessed in terms of return on equity. Due to the nature of the operations, return on equity may vary considerably from year to year, so return is examined over the long term as the average value in a five-year period. The debt-equity ratio is also examined.

The efficiency and profitability of operations is reported in detail in the Board of Directors' review of 2018, which is available in the annual report section of the financial statements.

	2018	2017	2016
Financial income (EUR million)	50.6	67.4	29.9
Net profit (EUR million)	2.1	2.0	0.3
Return on equity (%)	0.8	0.8	0.1
Equity ratio (%)	46.4	52.6	57.4
Equity ratio (%) 2/3 of the convertible state bond included	62.1		

Formulae

$$\text{Return on equity} = \frac{\text{Result}}{\text{Equity}} \times 100 \%$$

$$\text{Equity ratio 1} = \frac{\text{Equity}}{\text{Balance sheet total} - \text{advances received}} \times 100 \%$$

$$\text{Equity ratio 2} = \frac{\text{Equity} + \frac{2}{3} \text{ convertible state bond}^*}{\text{Balance sheet total} - \text{advances received}} \times 100 \%$$

*EUR 130 million / 3*2=EUR 86.666.666,67

Key figures

In calculating the key figures, Finnfund also presents the equity ratio assuming that 2/3 of the long-term convertible bond of EUR 130 million provided by the state is treated as equity.

A detailed report on Finnfund's efficiency and profitability can be found in the Report of the Board of Directors published in the Financials section of the 2018 Annual Report.

Financial cash flows to stakeholders

Public sector, taxes

Finnfund is exempt from income tax under the Act on Income Tax (1535/1992), so it does not pay tax to the Finnish State. In its financial statements for 2018, Finnfund reported it had paid a total of EUR 14,493.26 in taxes.

These taxes consist of capital gains taxes paid in target countries, as well as compensation for work and taxation paid at source on dividends.

The taxes are divided up as follows:

Country	Type of tax	EUR
India	Capital gains tax	661.53
Panama	Tax at source on dividends	12,371.80
Turkey	Tax at source on work compensation	1,459.93
TOTAL		14,493.26

Finnfund adopted a [new tax policy](#) at the beginning of 2018. It combines the principles and operating methods Finnfund uses to assess and promote the tax responsibility of its own operations and those of its investees.

The key principle of the policy is that taxes paid by project companies in their operating countries are one of Finnfund's development impacts. They help strengthen developing countries public sectors and their service provision to citizens. Finnfund's operations support the development of international tax regulations and the tax responsibility of the companies it finances.

In 2018, the tax structures of all new investments were evaluated according to the policy: the tax structure of the project company and group, and its compliance with Finnfund's tax policy is assessed in a separate tax memorandum which is appended to the memoranda by the internal risk classification group and the Board of Directors. In the event of any ambiguity, Finnfund's internal expert group gives its advice and, if necessary, external experts are also consulted.

Financing agreements increasingly include clauses whereby the project companies commit themselves to procedures in accordance with Finnfund's tax policy. Finnfund does not support aggressive tax planning that prevents the accumulation of tax revenue from profitable business activities in developing countries.

In line with its new tax policy, Finnfund also publishes the tax footprints of the projects it finances, with details for each country at portfolio level. The data is collected at the same time as other development impacts, so the data for 2018 will be available in autumn 2019. The report for 2017 is included in the publication, [Development Results 2017](#).

Shareholders

The purpose of the company is not to earn profits for its shareholders, and it does not distribute its assets in the form of dividends or other profit-sharing to its owners.

Investments

By its nature, the company requires little investment in its own operations, with only some investment required in fixed assets.

In 2018, Finnfund made new investment commitments in its target countries in a total value of EUR 154 million. A total of 26 new commitments were made. The majority of these commitments – both in terms of quantity and monetary value – focused on the least developed countries.

Charitable grants and donations

Finnfund exercises restraint in issuing charitable grants and donations, and it does not engage in any activities that could be considered sponsorship. At Christmas time, Finnfund donated EUR 3,000 to the Finnish WWF for protecting rainforests and to the Women's Bank for promoting women's entrepreneurship and livelihoods in developing countries.

Reporting and accounting principles

Finnfund's financial statements and annual report are prepared in accordance with the Finnish Accounting Standards (FAS), following the income statement and balance sheet models for ordinary companies. Finnfund is not a credit institution as referred to in the Act on Credit Institutions (610/2014), nor does it use income statement and balance sheet models intended for credit institutions. Since 2013, the company has presented an illustrative calculation of its operating profit in its annual report.

The company's annual financial statements are published on the website as part of the annual report, after the annual general meeting

Income level	No. of decisions	%	EUR million	%
Least developed countries	15	58	71.9	47
Low-income countries	0	0	0	0
Lower-middle-income countries	9	35	64.5	42
Upper-middle-income countries	2	7	17.5	11
Russia	0	0	0	0
TOTAL	26	100	154.0	100

has adopted the financial statements. At the same time, the company publishes the reporting and accounting principles used for the financial statements, along with any changes that have occurred in these principles.

From the beginning of 2018, Finnfund switched to quarterly reporting. It reports on matters such as its financial performance in the same manner as other State-owned companies by sending quarterly reports to the Prime Minister's Office and the Ministry for Foreign Affairs, which is responsible for ownership steering. Interim reports

are prepared quarterly but they are not audited or published.

From its investees Finnfund generally requires reports based on the International Financial Reporting Standards to ensure reliability and comparability.

In extraordinary circumstances, Finnfund may approve financial statements and other financial reporting that complies with local norms, unless there is cause to doubt the reliability of these or if it is considered justified in light of the status of the reporting company.

First Finance, Cambodia



Responsibility for people

Promoting human well-being and equality and respecting human rights are key principles of Finnfund's activities. Finnfund attaches great value to internationally recognised human rights, and respects and promotes them in everything it does.

Quality of jobs in investee companies

Finnfund evaluates the social responsibility and human rights impact of all its new investments before it makes a commitment. It monitors and evaluates the realisation of corporate responsibility using its own assessment tool and the International Finance Corporation's Performance Standards.

These standards include international human rights principles, such as labour rights and standards, the rights of vulnerable groups such as indigenous populations, consultation and inclusion of communities, and complaint mechanisms. A precondition of Finnfund's financing is that the investee commits to meeting applicable standards.

Human rights

Several Finnfund target countries are known to have human rights challenges. Finnfund understands that the projects it finances, and its own operations may have direct and indirect impacts on human rights.

Finnfund respects human rights and it is committed to complying with the UN Guiding Principles on Business and Human Rights, as well as the human rights based approach applied by the Ministry for Foreign Affairs of Finland. Assessment of human rights impacts is a key element in Finnfund's investment process. Finnfund actively strives to identify, prevent and mitigate any negative human rights impacts its own activities or the operations of its investees may have, and intervene by all the means available to it.

Human rights perspectives are also incorporated in Finnfund's environmental and social policy and EDFI's principles of responsible financing.

Finnfund does not finance companies or projects with identified human rights violations that cannot be prevented or rectified.

The key human rights aspects of each project are initially defined at an early stage in the project preparation process known as the decision in principle, where the preliminary information is

Promoting human well-being and equality and respecting human rights are key principles of Finnfund's activities

used to decide whether to begin more comprehensive preparation of the project.

After this, the assessment of human rights aspects is elaborated in conjunction with project-specific environmental and social responsibility assessments. Human rights assessments are conducted by environmental and social responsibility specialists or, if necessary, external specialists.

In 2018, Finnfund prepared a human rights policy, which was adopted at the end of the year. The policy is part of the environmental and social policy, and it aims to incorporate the UN Guiding Principles on Business and Human Rights more effectively throughout the life cycles of investments.

Finnfund is aware that the most severe potential human rights impact of its operations are most likely to arise via the operations of the companies it finances. At the same time, Finnfund is aware that human rights impacts may also be caused by the company's own activities as an employer or through the operations of the service providers and subcontractors it uses.

The policy was prepared in close cooperation with various stakeholders such as Finnish and international CSOs and other experts. At the same time, Finnfund continued developing its tools, processes and expertise related to human rights: Finnfund developed its set of criteria for identifying the human rights risk level of various projects and determining the required scope of human rights assessments before making a decision in principle.

Human rights assessments were made for new direct investment commitments, and the results and corrective measures were included in the action plans for the projects. Development work will continue in the coming years based on the internal development programme for the human rights policy in 2019 and 2020.

Read more [about the human rights policy and the implementation of the policy as part of the investment process](#).

Gender equality

Finnfund's mission is to promote economic and social development in developing countries. Promoting gender equality and, in particular, the status and rights of women and girls is crucial in achieving this.

In 2018, Finnfund began preparing gender equality statement. The policy will be incorporated into the environmental and social policy, and it is due for completion in 2019.

The fundamental idea is that Finnfund's potential to positively influence gender equality is particularly significant in its investment operations and, in practice, this often means promoting the status and rights of women as members of the work force, in their local communities or as consumers of products and services. In addition, Finnfund will also endeavour to follow best practices in building a responsible and equal working culture in its own organisation.

The statement will be prepared in close cooperation with various stakeholders such as CSOs and other experts. As part of the preparatory process, Finnfund held a discussion in autumn 2018 focusing on the consideration of groups in vulnerable positions and the promotion of equality. The event contributed to the human rights policy and the gender statement.

Finnfund also signed up to the Gender Finance Collaborative initiative, which was publicised in November 2018. The financial institutions involved in the initiative seek to promote investments that take into account gender equality and to work in the interest of having more financing available, offered more strategically among development financiers and private financiers.



Africado, Tanzania

Finnfund signed up to international initiative to empower women and girls

In November, Finnfund signed up to an international initiative of development financiers aiming to promote the position and rights of women and girls. Development finance institutions play an important role in guiding money towards improving gender equality, promoting women's leadership and financially empowering women around the world.

Finnfund and the other 14 development financiers that signed the commitment along with the European Investment Bank commit to promoting investments that take into account gender equality and to working in the interest of having more financing available, offered more strategically among development financiers and private financiers.

"Gender equality, promoting the status and rights of women and girls, is very important to Finnfund. That is why we aim to be at the forefront of this initiative, which seeks to strengthen the impact of development financing in terms of improving the lives and livelihoods of women and girls," says **Jaakko Kangasniemi**, Finnfund's Managing Director.

Read more [about the initiative](#).

Corporate responsibility when developing digital financing services

Financial institutions are one of Finnfund's main sectors. Digital solutions play a key role in providing banking services to many people in developing countries who have not previously had access to them. The opportunity to transfer, deposit and borrow money makes the lives and activities of hundreds of millions of people and small enterprises much easier. At the same time, the risks related to digital lending have increased as some products in the market are overpriced and customers end up taking too much debt.

In June 2018, Finnfund signed the Guidelines for Responsible Digital Financial Services with more than 50 other investors and developers of financing solutions. The guidelines concern matters such as transparent pricing, open disclosure of terms and conditions to customers, as well as actions to prevent excessive indebtedness and strengthen information security.

Finnfund's own personnel

Finnfund is a responsible employer which encourages its personnel to continuously learn new things and develop professionally.

Human resources management

Finnfund's Management Team decides on the company's human resources policies, while the Director of Administration, the Human Resources Manager and supervisors take operational responsibility for their implementation. general guidelines concerning remuneration, incentive scheme and the remuneration for members of the Management Team are decided by the Board of Directors decides on the in compliance with the remuneration policies for State-owned companies.

The company's managerial and supervisory work has been improved and evaluated over several years. Finnfund conducts regular personnel surveys covering topics such as the quality of supervisory and managerial work. Efforts are made to respond appropriately and rapidly to the feedback received from personnel.

The supervisor training programme, which began in 2017 and was implemented in cooperation with external specialists, ended in late spring 2018. The aim was to improve supervisors' management competencies and ensure a consistent quality of managerial and supervisory work. Since the end of the programme, the training has continued in the form of more streamlined quarterly coaching sessions.

Human resource targets

Every year, Finnfund prepares a human resources and training plan for the year ahead using a collaborative method. Annual career and target discussions are held with every staff member to review, for example, the need for training, and to monitor the realisation of the previous year's targets and set new targets for the coming year.

Furthermore, development and planning days are set aside for the personnel to review topical themes and promote interaction between the personnel and management.

The Pulse survey, conducted three times a year, reveals the short-term changes in the personnel's impressions of the status of their work, their ability to cope with their work and the quality of supervisory work. Since 2018, the results have also been reported to the Board of Directors.

Finnfund systematically monitors the job satisfaction, number of sick days, and the frequency of accidents. Efforts are made to identify and rectify the causes for any negative changes, and to reinforce the underlying causes of positive changes.

Finnfund systematically monitors the job satisfaction, number of sick days, and the frequency of accidents

Number and structure of personnel

At the end of 2018, the company employed 80 people, seven of whom worked for the Ministry for Foreign Affairs' Finnpartnership programme managed by Finnfund. The average number of personnel for the year as a whole was 75. All of the company's personnel work in Finland at the company's offices in Helsinki.

In 2018, there were no reductions in the number of personnel, nor were any other rationalisation measures taken. During the year, the number of personnel increased as planned. Six permanent employees left the company and 11 new ones started working at Finnfund. The outgoing turnover was 7.5 per cent and the incoming turnover was 13.8 per cent.

The duration of permanent employment relationships is distributed as follows:

0-1	2-5	6-10	11-15	16-20	21-25	26-30	31-34	35-40
10	34	14	10	4	1	3	2	2

The average duration of permanent employment relationships is eight years. The age structure of permanent personnel, divided into five-year bands, is as follows:

25-29	30-34	35-39	40-44	45-49	50-54	55-59	60+
5	14	16	14	5	12	10	4

The average age of employees is 43.

In 2018, personnel expenses amounted to EUR 8.1 million, including pension and other personnel add-on costs, as well as voluntary personnel costs. The payroll total in 2017 was EUR 6.9 million.

Equality

At the end of 2018, Finnfund employed 53 women (52 at the end of 2017), accounting for approximately 66 per cent (68.4 per cent) of all employees. 27 (24) employees were men, equating to approximately 34 per cent (31.6 per cent).

Five (6) of members of the Board of Directors were women, equating to 62.5 per cent (75 per cent). Three (2) were men, equating to 37.5 per cent (25 per cent).

Two (2) members of the Management Team were women, equating to 40 per cent (40 per cent). Three (3) members of the Management Team were men, equating to 60 per cent (60 per cent).

Finnfund conducts an annual equality and non-discrimination survey among its personnel. It forms the basis for updating the company's equality and non-discrimination plan and helps identify practical measures to promote equality and non-discrimination.

The key goal of the equality and non-discrimination plan is to promote equality and non-discrimination, identify and eliminate structures that generate and maintain inequalities and enable men and women of different ages to have equal terms of employment, working conditions, equal distribution between different positions, equal training and career development opportunities, and remuneration on equal principles.

In 2018, Finnfund began preparing a gender statement. The aim of the statement is to define the principles by which Finnfund will promote gender equality in its investments and in its own activities. The policy is due for completion in 2019.

Remuneration

Finnfund's remuneration system has three components: the base salary, fringe benefits and short-term incentives.

Remuneration at Finnfund consists primarily of the fixed monthly salary, which is determined according to the complexity of the position and the employee's professional competence, interaction skills and performance. The complexity grades of employees are defined every few years and a salary comparison is performed annually with the help of an external consultant to evaluate the remuneration level of the market as a whole.

In 2018, all of the complexity grades of positions within the company were updated and both the grounds for the complexity grades and the categorisation of positions were presented first to the supervisors and thereafter to the entire personnel in summary.

The company has an incentive scheme, which covers every member of personnel except the Managing Director. Employees can earn a bonus of either 1.5 or two months' salary, depending on their position, for reaching the targets set annually. In 2018, the incentive scheme was based partly on the company's performance and partly on the fulfilment of personal targets.

In addition, individual employees can earn a personal bonus worth a maximum of 1.5 months' salary for excellent performance that clearly surpasses the targets. The Board of Directors decides on the incentive scheme and the key terms and conditions of the scheme annually in line with the applicable State ownership policy on remuneration.

In the 2018 financial statements, a provision was made for the cost of bonuses corresponding to approximately 10.2 per cent of remuneration costs.

Finnfund pays constant attention to its employees' occupational wellbeing, ability to cope with workload, and job satisfaction

Competence development and training

Training is one way for Finnfund to achieve its targets. Finnfund takes a positive approach to personnel training and continuous competence development: employees require a diverse range of competences in the fields of international finance and development. Learning on the job and working with experienced colleagues are important factors in developing professional capabilities.

All of Finnfund's personnel are covered by the annual career and target discussions. The discussions are held every spring, using a set of forms developed for this purpose. The set of forms was updated in 2018, and the new discussion framework will be used for the first time in spring 2019.

The discussion covers matters related to professional expertise, the quality of work, professional development and motivation. It also includes assessment of how goals for the previous year were met and setting new personal targets for the following year. They also give everyone the opportunity to give feedback on supervisors, either directly to the supervisors themselves, the supervisor's superiors or a representative of the human resources department.

All new employees are given orientation to the organisation and their duties as they begin work at Finnfund (induction training). Finnfund strives to constantly develop and maintain its employees' competences by offering topical, supplementary and language training. The company's training plan is reviewed annually using a collaborative method as part of the review of the personnel and training plan. The training requirements of individual employees are discussed by the employee and the supervisor annually at career and target discussions, which also include agreements on personal training plans if necessary.

In 2018, Finnfund started to pilot an exchange programme to support professional development. The programme provides analysts with the opportunity to work for a fixed period in Finnfund investee companies or other partners. During the year, one exchange period took place in Kenya and another exchange period began with another development financier.

Occupational wellbeing, health and safety

Finnfund pays constant attention to its employees' occupational wellbeing, ability to cope with workload, and job satisfaction. Finnfund conducts regular occupational wellbeing and job satisfaction surveys. In addition, feedback is frequently collected from personnel using various instant quick surveys and other methods.

The personnel also have the opportunity to discuss matters of occupational wellbeing and job satisfaction during career and target discussions and to give anonymous feedback via the company's intranet or Finnfund's website. It is also possible to discuss issues with external parties if necessary.

In 2018, the management of occupational wellbeing, health and safety was the responsibility of the Director of Administration together with the Human Resources Manager and the Chief Technology Officer, who acts as the occupational health and safety manager. Finnfund also has an occupational health and safety committee. The most significant safety risks in the workplace have been assessed as the safety of travel, health risks due to travelling and ergonomics.

In 2017 and 2018, special attention was paid to travel safety by reviewing existing safety guidelines, related procedures and the need for personnel training. In 2018, the policies, guidelines and

procedures concerning travel safety were updated and the personnel were offered training.

The workplace risk assessment is updated periodically, and efforts are made to respond rapidly to any changes to the risk levels or any new risks that become apparent. Ergonomics assessments are also updated periodically in conjunction with personnel turnover and changes affecting workstations. Every employee has an electric height-adjustable desk to prevent the health hazards associated with too much sitting down.

In 2018, Finnfund was not made aware of any work-related accidents.

The number of days taken as sick-leave, the trend in absences and the known causes of absences are continuously monitored in collaboration with the occupational health care provider. Overall, the number of absences due to illness is at an ordinary level and annual changes in the number have been moderate.

Finnfund encourages its personnel to take care of their health and well-being by offering

more extensive occupational health care services than the statutory minimum and by subsidising its personnel's sporting and cultural activities. The company has a model for providing early support when employees' working capacity is in jeopardy and a substance abuse programme for preventing and treating the effects of substance abuse.

In autumn 2018, new offices were designed for Finnfund in Ruoholahti, Helsinki, and the company will move in March 2019. The entire personnel will move to an open-plan office environment, but everyone will have their own work station. The employees have been able to participate in the designing of the new offices, and their wishes have been taken into consideration wherever possible.

The company is moving to open-plan premises with the aim of promoting openness, working together and interaction, which are key elements of the updated company culture. Good washing and changing facilities have also been designed for the new offices, along with bicycle storage spaces to enable employees to combine commuting with exercise.

New Forests, Africa



Responsibility for the environment

Investments that improve the environment and responsible management of environmental risks are at the core of Finnfund's investment operations. In particular, Finnfund's key goals include mitigating climate change and supporting adaptation to it.

Environmental responsibility in investments

When Finnfund assesses the environmental and social responsibility of projects, it complies with the World Bank Group's IFC's Environmental and Social Performance Standards and sector-specific guidelines. These set out good practices in areas such as emissions, waste handling, responsible use of water and promoting biodiversity. A precondition of Finnfund's financing is that the investee commits to meeting the standards that apply to it.

On top of that, many of the projects financed by Finnfund have sector-specific corporate responsibility standards, such as Forestry Stewardship Council (FSC®) certification for sustainable forest management.

Finnfund does not finance coal-fired power plants or hydroelectric power projects requiring major dams that cause substantial population displacement.

Climate change mitigation and adaptation

Finnfund's key goals include climate change mitigation and adaptation. Finnfund strives to finance projects that mitigate climate change by reducing

greenhouse gas emissions or help in adapting to climate change. The company's strategy emphasises projects focusing on renewable energy and sustainable forestry and agriculture.

With support from external specialists, Finnfund has developed a tool for calculating carbon dioxide emissions in accordance with international standards. The tool is intended for use in conjunction with project development. Two versions have been created: one for renewable energy projects and the other for forestry projects.

The calculation tools enable Finnfund to calculate the expected gross carbon dioxide emissions of projects, as well as the net reduction in carbon dioxide emissions on projects seeking to cut emissions. The estimated net emission reductions have been calculated for the applicable energy and forestry projects since the beginning of 2015.

The tools were created by applying the guidelines issued by the Intergovernmental Panel on Climate Change (IPCC), the UNFCCC Clean Development Mechanism (CDM) and the Greenhouse Gas Protocol. In addition, the calculation principles comply with the International Financial Institutions' harmonised greenhouse gas emission calculation instructions.

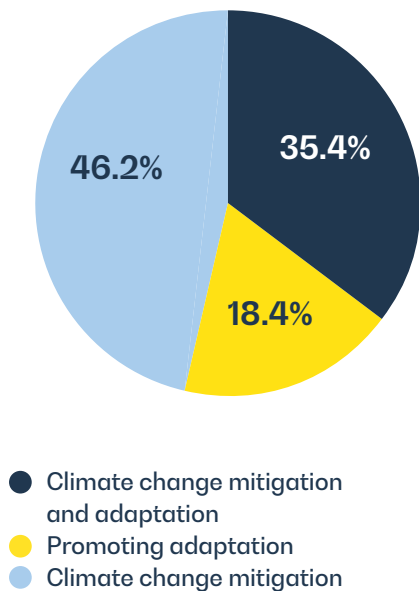
The new investment commitments made in 2018 are estimated to lead to emission reductions totalling 29,036,500 tonnes of CO₂ equivalent over the entire terms of the investments.

This quantity can vary greatly from year to year depending on the types of investments and the sectors of investments in any given year.

In 2018, Finnfund completed the work that had begun in the preceding year to calculate the climate impact of the entire investment portfolio. The calculation was prepared in December and it

covers the status for 2016. After this, the calculation will continue for subsequent years.

In 2018, Finnfund made disbursements of EUR 71.9 million to companies or funds that work to mitigate climate change or promote adaptation to climate change. In practice, this means clean energy generation, sustainable forestry or agricultural development. The distribution of financing between mitigation and adaptation is shown in the figure below.



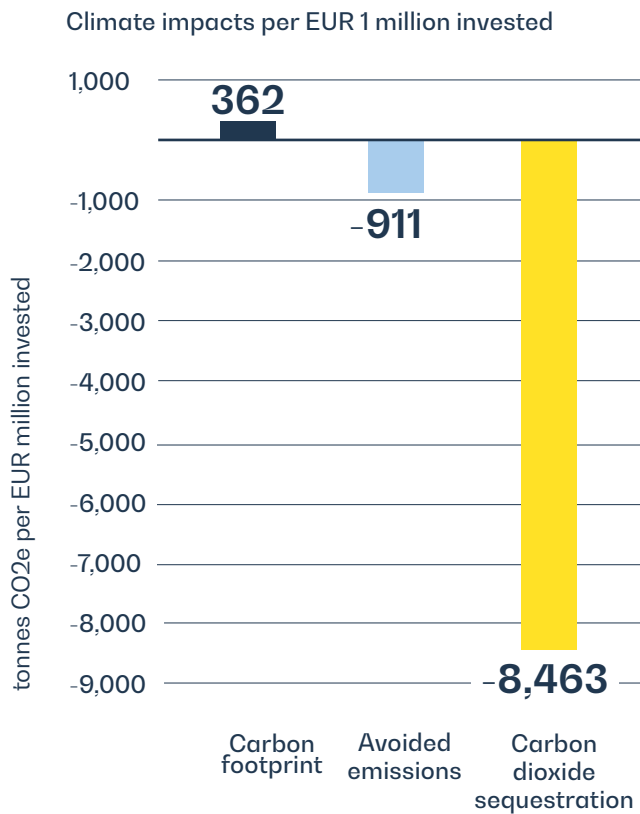
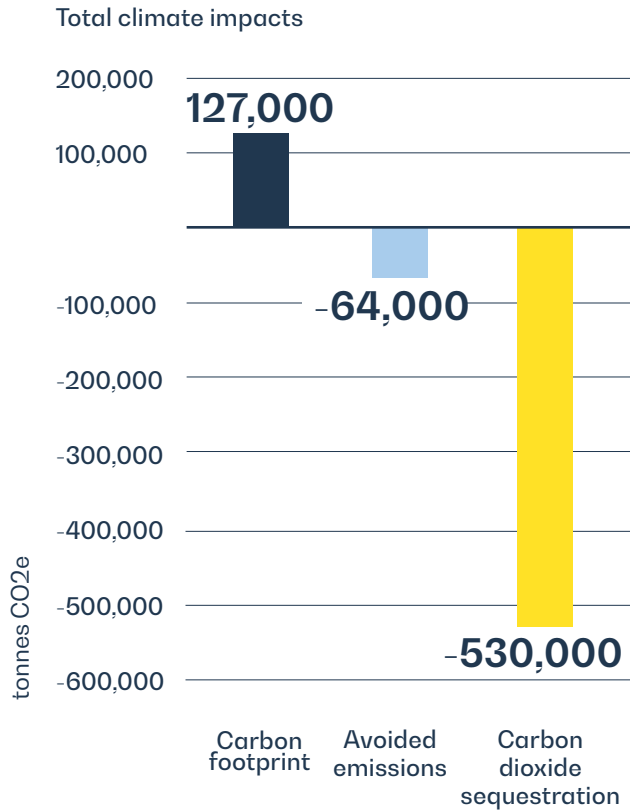
Finnfund calculated the climate impacts of its entire investment portfolio

Finnfund has started annual calculation of the climate impacts of its entire investment portfolio. The calculation covers all investments (direct and indirect, new and old) in terms of the carbon footprint, avoided emission and carbon sequestration. A comprehensive calculation covering the entire investment portfolio makes it possible to examine and develop the portfolio on the basis of measurable quantitative data that can be monitored annually. The results based on the status in 2016 show that Finnfund’s forest investment sequester more than half a million tonnes of carbon dioxide equivalent (CO₂e) from the atmosphere. Finnfund’s investments in clean energy avoid emissions of 64,000 t CO₂e in developing countries. The carbon footprint of all investments – the sum of the emissions – is 127,000 t CO₂e. The calculation takes into account Finnfund’s share of the financing in each investment (attribution).

The calculation methodology was developed with the help of external specialists and it takes into consideration the international recommendations applying to the finance sector as well as the Greenhouse Gas Protocol guidelines. The calculation provides information on the carbon footprint, carbon binding and carbon dioxide emissions prevented by the entire portfolio.

Read more about [calculating climate impacts](#).

Climate impact of Finnfund's investment portfolio 2016



- **Carbon footprint:** Includes all direct and indirect investments, total EUR 351 million
- **Avoided emissions:** Includes investments in renewable energy, total EUR 70 million
- **Carbon dioxide sequestration:** Includes investments in plantation forests, total EUR 63 million

Finnfund's investments are a key part of Finland's official climate financing. Finnfund regularly reports to the Ministry for Foreign Affairs of Finland in line with the requirements of the Organisation for Economic Cooperation and Development (OECD) on projects that are significant in mitigating or adapting to climate change. Only equity investments are taken into consideration as official climate financing.

Environmental impacts of Finnfund's operations

Carbon footprint

Finnfund's operations require its staff to thoroughly familiarise themselves with investees and actively participate in management and monitoring of investments. This requires frequent visits to target countries, and these journeys give rise to greenhouse gas emissions. However, Finnfund is continuously developing its electronic tools and encouraging its personnel to use them actively and participate in events such as meetings via remote connections.

The company seeks to mitigate the greenhouse gas emissions arising from commuting by encouraging personnel to use public transport by

offering the possibility of an employer-subsidised commuter ticket and partial teleworking.

In 2018, Finnfund completed the calculation of the climate impact of its entire investment portfolio. At the same time, the decision was taken to begin calculating the carbon footprint of Finnfund's operations in the following year.

Water, waste and energy savings

The company's operations consume small quantities of water and generate little waste. However, the company strives to improve the material efficiency of its operations by means such as reducing the consumption of office paper, promoting electronic document management and sorting waste, as well as by making use of energy-saving office equipment and lighting solutions.

In 2018, Finnfund prepared to move to new offices in Ruoholahti, Helsinki. The choice of location and design of the offices took account of the reduction of environmental impacts. As part of this work, Finnfund also decided to begin using the WWF's Green Office system, which enables better management of the environmental impacts of the company's operations.

**Finnfund's investments
are a key part of Finland's
official climate financing**