

13.4.2021

## Disclosure Statement

### Operating Principles for Impact Management

Finnfund (the “Signatory”) hereby affirms its status as a Signatory to the Operating Principles for Impact Management (the “Principles”).

This Disclosure Statement applies to the following assets (the “Covered Assets”):  
Finnfund’s total portfolio.

The total assets under management in alignment with the Principles is US\$ 734.6 million as of 31 March 2021.

13 April 2021



Finnfund  
Jaakko Kangasniemi  
Managing Director, CEO

**Principle 1: Define strategic impact objective(s), consistent with the investment strategy.**

*The Manager shall define strategic impact objectives<sup>1</sup> for the portfolio or fund to achieve positive and measurable social or environmental effects, which are aligned with the Sustainable Development Goals (SDGs), or other widely accepted goals. The impact intent does not need to be shared by the investee. The Manager shall seek to ensure that the impact objectives and investment strategy are consistent; that there is a credible basis for achieving the impact objectives through the investment strategy; and that the scale and/or intensity of the intended portfolio impact is proportionate to the size of the investment portfolio.*

- Finnfund was founded in 1980 to promote social and economic development in developing countries.
- Finnfund Act (291/79) reads that: “The Company (Finnfund) shall promote the economic and social development of countries which the OECD DAC has classified as developing countries by directing human and material resources to the development of the industrial and other economic corporate activity of these countries.”
- In spring 2018, Finnfund’s Board of Directors approved a new strategy for the company, setting operational guidelines until 2025. The strategy states that Finnfund’s mission is to build a sustainable world by investing in responsible businesses in developing countries and the company aims to triple its impact by then. The strategy defines renewable energy, sustainable forestry, sustainable agriculture and financial institutions as priority sectors for Finnfund due to their critical role in achieving sustainable development. In addition, gender equality is an important objective for Finnfund as detailed in our [Gender Statement](#).
- The Finnish State owns 94.4% of Finnfund and the Ministry for Foreign Affairs of Finland is charged with steering Finnfund. Each year the Foreign Ministry issues a Government Ownership Steering Memorandum, in which it sets Finnfund’s development policy and operational goals. Finnfund’s Board of Directors monitors the achievement of these objectives.

The memorandum for the year 2020 states that as a national development finance Institution, Finnfund promotes the achievement of the SDG goals. More specifically, the Ministry has set the following targets:

- At least 75% of the value of annual investment decisions are made into countries of low and lower middle income, or countries in fragile context.
- At least 50% of the value of new investments are categorised as climate financing.
- At least 50% of the value of new investments are in Africa.

**Principle 2: Manage strategic impact on a portfolio basis**

*The Manager shall have a process to manage impact achievement on a portfolio basis. The objective of the process is to establish and monitor impact performance for the whole portfolio, while recognizing that impact may vary across individual investments in the portfolio. As part of the process, the Manager shall consider aligning staff incentive systems with the achievement of impact, as well as with financial performance.*

- In its strategy, Finnfund aims to triple its impact by 2025. To monitor, and manage the achievement of this objective, Finnfund has developed a bespoke summary index of its development impact. Year 2017 when strategy was launched is used as the baseline. The index comprises of

---

<sup>1</sup> Impact objectives can be defined as the intended impact that contributes to financial, institutional, social, environmental, or other benefits to a society, community, or group of people via one or more investment. Adapted from OECD-DAC ([www.oecd.org/dac/](http://www.oecd.org/dac/)).

eight key indicators representing Finnfund's key sectors. The index is weighted on the basis of investment volume of each sector, impact-weighted and attributed to Finnfund's financing share,

- Strategic impact is at the core of Finnfund's incentive structure. Finnfund's management sets internal annual targets (KPIs) for the number of investments; volume of investments; sectoral and geographical distribution of the investments; and total score of the investments. Each new investment is scored against predefined criteria, where relevance to the strategic objectives and anticipated development impact play an important role. The scoring is key in achieving the annual corporate KPIs, which then serve as the foundation of allocation of bonuses.
- Every new investment is assessed with Finnfund's bespoke Development Effectiveness Assessment Tool (DEAT) in two occasions: first for the investment committee meeting to obtain Clearance in Principle to continue preparation of the investments (so called DEATLite); and second for the Board meeting for the approval of the investment.
- [DEAT](#) is comprised of three sections: strategic relevance, market impact and additionality. The first section, strategic relevance, seeks to assess the proposed investment's conformity with Finnfund's strategic objectives. The specific questions in the section relate to the ODA status of the project country, sector, inclusivity of the business model, gender, climate change and breadth and depth of CSR activities.
- Relevance score represents 40% of the total development impact score and thus plays an important part in the overall ranking of the investment.
- Alignment and achievement of portfolio level strategic impact is monitored on a quarterly basis by the Board of Directors.
- Results for 2019 include: 84% of the value of investments were made into lower middle income or poorer countries, 64% were in the Finnfund's priority sectors, 49% address climate change and 45% were considered gender financing.

### ***Principle 3: Establish the Manager's contribution to the achievement of impact***

*The Manager shall seek to establish and document a credible narrative on its contribution to the achievement of impact for each investment. Contributions can be made through one or more financial and/or non-financial channels.<sup>2</sup> The narrative should be stated in clear terms and supported, as much as possible, by evidence.*

- In consonance with SDG 17, Finnfund's niche and task is to provide additional financing to underserved markets and companies. In many developing countries, especially in the poorest ones, small and medium-sized businesses struggle to find risk-tolerant long-term finance<sup>3</sup>.
- All Finnfund's investments are assessed on the basis of their additionality, and additionality is one of the three sections in Finnfund's DEAT.
- Additionality can be financial, providing financing to underserved geographies, sectors, segments, accepting higher risk and providing longer tenors. As a proxy for additionality, participation of other financiers is considered in the additionality assessment. Scoring of each investment

<sup>2</sup> For example, this may include: improving the cost of capital, active shareholder engagement, specific financial structuring, offering innovative financing instruments, assisting with further resource mobilization, creating long-term trusted partnerships, providing technical/market advice or capacity building to the investee, and/or helping the investee to meet higher operational standards.

<sup>3</sup> [Enterprise surveys](#) clearly show that lack finance is the biggest challenge for companies in emerging markets.

includes consideration if Finnfund has had a catalytic role by mobilising additional financing for the project from third parties.

- Additionality can also be qualitative, value added through Finnfund's organisational experience with respect to specific sector, country, project type that can contribute in a demonstrable and significant manner to the successful completion and realisation of the project. Examples include expertise and advice in environmental, social or corporate governance issues.

**Principle 4: Assess the expected impact of each investment, based on a systematic approach**

*For each investment the Manager shall assess, in advance and, where possible, quantify the concrete, positive impact<sup>4</sup> potential deriving from the investment. The assessment should use a suitable results measurement framework that aims to answer these fundamental questions: (1) What is the intended impact? (2) Who experiences the intended impact? (3) How significant is the intended impact?<sup>5</sup> The Manager shall also seek to assess the likelihood of achieving the investment's expected impact. In assessing the likelihood, the Manager shall identify the significant risk factors that could result in the impact varying from ex-ante expectations.*

*In assessing the impact potential, the Manager shall seek evidence to assess the relative size of the challenge addressed within the targeted geographical context. The Manager shall also consider opportunities to increase the impact of the investment. Where possible and relevant for the Manager's strategic intent, the Manager may also consider indirect and systemic impacts. Indicators shall, to the extent possible, be aligned with industry standards<sup>6</sup> and follow best practice.<sup>7</sup>*

- Finnfund has developed generic [Theories of Change](#) (ToC) for its priority sectors to guide the impact work. ToCs are based on existing literature of academic and non-academic research, expert opinions and analytical thinking. ToCs are causality frameworks comprising three spheres of impact (company/economy, people/society; environment/climate) and three dimensions of impact (direct, indirect, wider/systemic).
- The ToCs are used in 1) ex-ante assessment to guide the assessment of investments anticipated impact to the market and customers; 2) selecting key indicators for which baselines are established both at investee and system/national level; 3) annual [monitoring and reporting](#) (direct impacts only); and 4) [impact studies](#) for verifying indirect and system level impacts.
- Ex-ante assessments also include a summary table highlighting 1) what are the main outcomes of the investment? 2) who are the main beneficiaries of the outcomes and how are they underserved? 3) what is the scale, depth and duration of the outcome? 4) Finnfund's contribution to the achievement of the outcomes? and 5) what is the most important risk, its likelihood to materialise and mitigation measures? In coming years, the assessment of the impact risk will be further strengthened to support monitoring and to identify opportunities to increase impact.
- In selecting suitable indicators, Finnfund uses HIPSO and EDFI harmonised indicators when applicable.

<sup>4</sup> Impact is considered the material effect/s on people and the environment resulting from the investment, as outlined in Principle 1. Impacts assessed under Principle 4 may also include positive ESG effects derived from the investment.

<sup>5</sup> Adapted from the Impact Management Project ([www.impactmanagementproject.com](http://www.impactmanagementproject.com)).

<sup>6</sup> Industry indicator standards include HIPSO (<https://indicators.ifipartnership.org/about/>); IRIS ([iris.thegiin.org](http://iris.thegiin.org)); GIIRS (<http://b-analytics.net/giirs-funds>); GRI ([www.globalreporting.org/Pages/default.aspx](http://www.globalreporting.org/Pages/default.aspx)); and SASB ([www.sasb.org](http://www.sasb.org)), among others.

<sup>7</sup> International best practice indicators include SMART (Specific, Measurable, Attainable, Relevant, and Timely), and SPICED (Subjective, Participatory, Interpreted & communicable, Cross-checked, Empowering, and Diverse & disaggregated), among others.

**Principle 5: Assess, address, monitor, and manage potential negative impacts of each investment**

*For each investment the Manager shall seek, as part of a systematic and documented process, to identify and avoid, and if avoidance is not possible, mitigate and manage Environmental, Social and Governance (ESG)<sup>8</sup> risks. Where appropriate, the Manager shall engage with the investee to seek its commitment to take action to address potential gaps in current investee systems, processes, and standards, using an approach aligned with good international industry practice.<sup>9</sup> As part of portfolio management, the Manager shall monitor investees' ESG risk and performance, and where appropriate, engage with the investee to address gaps and unexpected events.*

- Finnfund has prepared Sustainability Policy that outlines Finnfund's commitment to sustainable development and the responsible business practices. The Policy covers environmental, social and governance issues and impact created through sustainable business practices.
- In all investments, Finnfund requires its investees to comply with applicable host country laws and regulations as well as the relevant international obligations. All Finnfund's investments associated with medium to high inherent environmental and social risks and adverse impacts are, over a reasonable period of time, required to achieve compliance with international standards on environmental and social management and performance. The project and the associated impacts and risks define the standards to be applied, but the principal environmental and social risk management framework adopted consist of the IFC Performance Standards on Environmental and Social Sustainability, and the associated WB Group general and industry specific Environmental, Health and Safety Guidelines.
- Finnfund has developed specific procedures for environmental and social due diligence, management and monitoring as well as corporate governance, corruption and taxation matters. All these are integrated into the investment process and codified in Finnfund's internal guidelines and handbooks. Different procedures are applied for direct and indirect investments as well as for different financing instruments. Finnfund focuses on the key ESG impacts, benefits, risks and opportunities relevant for each project. The higher the risks are, the more stringent the requirements become.
- Finnfund, together with the investee, often develops a project-specific Environmental and Social Action Plan (ESAP) based on the gaps identified during the environmental and social due diligence process. Finnfund supports the investees in meeting the requirements of the ESAPs and monitors compliance through regular communications and on monitoring visits.

**Principle 6: Monitor the progress of each investment in achieving impact against expectations and respond appropriately**

*The Manager shall use the results framework (referenced in Principle 4) to monitor progress toward the achievement of positive impacts in comparison to the expected impact for each investment. Progress shall be monitored using a predefined process for sharing performance data with the investee. To the best extent possible, this shall outline how often data will be collected; the method for data collection; data sources; responsibilities for data collection; and how, and to whom, data will be reported. When monitoring indicates that the investment is no longer expected to achieve its intended impacts, the*

---

<sup>8</sup> The application of good ESG management will potentially have positive impacts that may or may not be the principal targeted impacts of the Manager. Positive impacts resulting from ESG matters shall be measured and managed alongside with, or directly embedded in, the impact management system referenced in Principles 4 and 6

<sup>9</sup> Examples of good international industry practice include: IFC's Performance Standards ([www.ifc.org/performancestandards](http://www.ifc.org/performancestandards)); IFC's Corporate Governance Methodology ([www.ifc.org/cgmethodology](http://www.ifc.org/cgmethodology)), the United Nations Guiding Principles for Business and Human Rights ([www.unglobalcompact.org/library/2](http://www.unglobalcompact.org/library/2)); and the OECD Guidelines for Multinational Enterprises (<http://mneguidelines.oecd.org/themes/human-rights.htm>).

*Manager shall seek to pursue appropriate action.<sup>10</sup> The Manager shall also seek to use the results framework to capture investment outcomes.<sup>11</sup>*

- Investee level regular impact monitoring takes place annually. The relevant indicators and timing of the reporting are attached to the contract. As of 2019, Finnfund requests the data from its investee companies through an online system. The results are published annually in a so called [Impact Report](#) the presents the findings at aggregate, sector and portfolio level. Going ahead, Finnfund will set specific impact targets especially with the equity portfolio companies that will drive towards more active impact management at company level.
- Annually, each investment is discussed in Project Management Committee that monitors the progress of the investment against set targets; financial, environmental and social; and impact. In case deviations from the original targets or estimates are detected, the responsible portfolio manager seeks reasons for deviation and decides on the subsequent actions. Typically, the deviations are due to worse than expected business performance of the company that maybe caused by internal or external (market) factors. In case the reason is deemed to be internal management issue, corrective measures are sought. If the less-than-expected performance is due to changes in wider market situation, then possibilities for corrective measures are limited.
- In addition to the annual monitoring, Finnfund has commissioned impact studies to better understand the indirect and wider impacts of its investments. To further improve the impact management system, Finnfund is adding more layers and methods to its impact data collection system.

METHOD	ANNUAL SAMPLE	QUALITATIVE/ QUANTITATIVE	IMPACT DIMENSION	WHO CONDUCTS
Annual monitoring	120+	Quanti	Direct	Self
DEATalive	10	Quanti	Direct	Self
Client insights and impacts survey	5	Quali/quant	Direct/ Indirect	Other
Job decency survey	5	Quali/quant	Direct/ Indirect	Other
Impact studies	2-3	Quali/quant	Indirect/ Wider	Other
Case studies	3	Quali	Indirect/ Wider	Self/other

**Principle 7: Conduct exits considering the effect on sustained impact.**

*When conducting an exit,<sup>12</sup> the Manager shall, in good faith and consistent with its fiduciary concerns, consider the effect which the timing, structure, and process of its exit will have on the sustainability of the impact.*

<sup>10</sup> Actions could include active engagement with the investee; early divestment; adjusting indicators/expectations due to significant, unforeseen, and changing circumstances; or other appropriate measures to improve the portfolio's expected impact performance.

<sup>11</sup> Outcomes are the short-term and medium-term effects of an investment's outputs, while the outputs are the products, capital goods, and services resulting from the investment. Adopted from OECD-DAC ([www.oecd.org/dac/](http://www.oecd.org/dac/)).

<sup>12</sup> This may include debt, equity, or bond sales, and excludes self-liquidating or maturing instruments.

- When conducting an exit, the responsible investment manager will write an exit memo based on a predefined template. In the template, the investment manager is requested to reflect on the achievements against set targets/estimates and consider future direction of the company.
- In the template, there is a specific section for development impact where key impacts are presented and compared to the original targets/estimates.
- These processes will have to be strengthened with more detailed guidance to be included in the templates with separate documented policies for equity and loan investments.

***Principle 8: Review, document, and improve decisions and processes based on the achievement of impact and lessons learned.***

*The Manager shall review and document the impact performance of each investment, compare the expected and actual impact, and other positive and negative impacts, and use these findings to improve operational and strategic investment decisions, as well as management processes.*

- There continues to be room to improve the feedback loop from achievement of impact to the decision-making process.
- The impact data collection system described above under principles 4 and 6 is expected to provide sufficiently credible data to feed into the process.
- In addition to the annual Project Management Committee meetings, Finnfund is developing a tool, so called *DEAT*alive that would annually review a larger sample on investments that have reached their maturity to assess to what extent the expected impacts have been reached, and what are the key reasons for deviation, and what are the lessons learned from the analyses.

***Principle 9: Publicly disclose alignment with the Principles and provide regular independent verification<sup>13</sup> of the alignment.***

*The Manager shall publicly disclose, on an annual basis, the alignment of its impact management systems with the Principles and, at regular intervals, arrange for independent verification of this alignment. The conclusions of this verification report shall also be publicly disclosed. These disclosures are subject to fiduciary and regulatory concerns.*

- This statement serves as Finnfund's testimony of its continued alignment to the Principles. The statement and information contained therein was independently verified by BlueMark in February – March 2021. The independent verification report can be found [here](#).
- Finnfund intends to commission the independent verification by 2025.

---

<sup>13</sup> The independent verification may be conducted in different ways, i.e., as part of a financial audit, by an independent internal impact assessment committee, or through a portfolio/fund performance evaluation. The frequency and complexity of the verification process should consider its cost, relative to the size of the fund or institution concerned, and appropriate confidentiality

**Disclaimer:**

The information contained in this Disclosure Statement has not been verified or endorsed by International Finance Corporation, the World Bank or any member of the World Bank Group or the Secretariat or Advisory Board. All statements and/or opinions expressed in these materials are solely the responsibility of the person or entity providing such materials and do not reflect the opinion of International Finance Corporation, the World Bank or any member of the World Bank Group. None of International Finance Corporation, the World Bank or any member of the World Bank Group shall be responsible for any loss, claim or liability that the person or entity publishing this Disclosure Statement or its investors, Affiliates (as defined below), advisers, employees or agents, or any other third party, may suffer or incur in relation to this Disclosure Statement or the impact investing principles to which it relates. For purposes hereof, "Affiliate" shall mean any individual, entity or other enterprise or organisation controlling, controlled by, or under common control with the Signatory.