



Finnfund

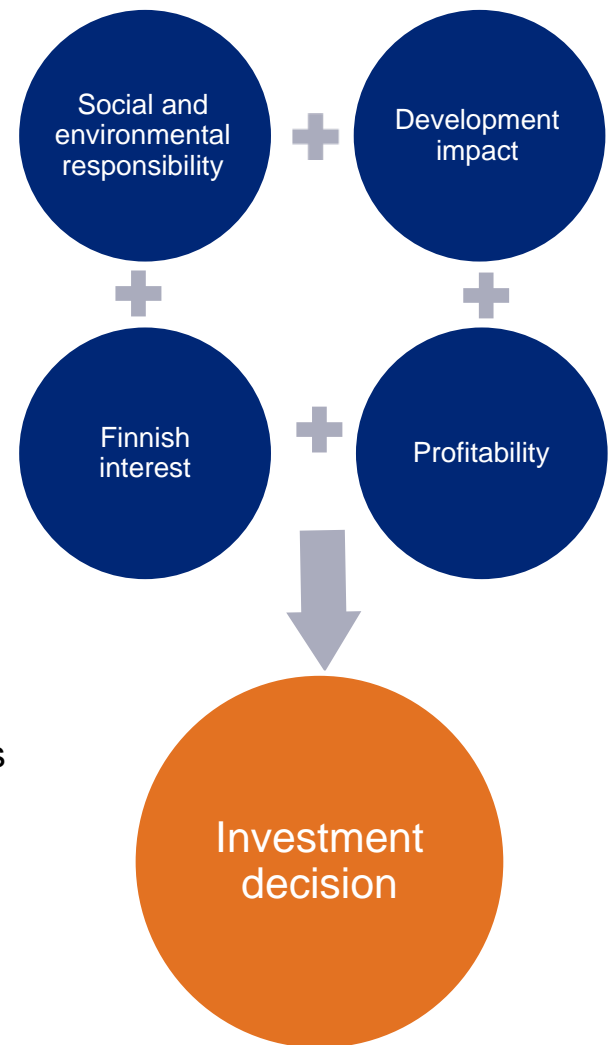
**– Profitable & sustainable
impact investing in developing countries**

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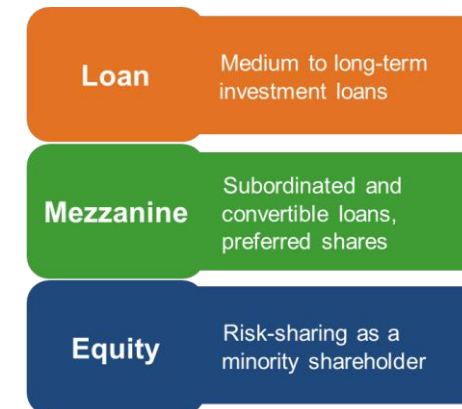
Finnfund in brief

- Finnish development finance institution (DFI) with a long track record – profitable and sustainable projects in over 30 developing countries for 35+ years
 - Shareholders: State of Finland 93.8%, Finnvera Plc 6.1%, Confederation of Finnish Industries 0.1%
 - Finnish business interest and/or development policy interest
- Mission to provide financing for private companies in the developing world to improve peoples’ lives and foster sustainable development
- Investing in loans, equity and mezzanine for up to 180 million euros in over 20–30 projects annually
 - In August 2017, our portfolio and undisbursed commitments were about 687 millions euros
- Commercial market-based documentation added with DFI standards
- Finnfund brings additional risk taking capacity compared to other financiers – we are able to take higher risk which is also reflected in higher returns.
- Team of 77 professionals, based in Helsinki (incl. Finnpartnership)

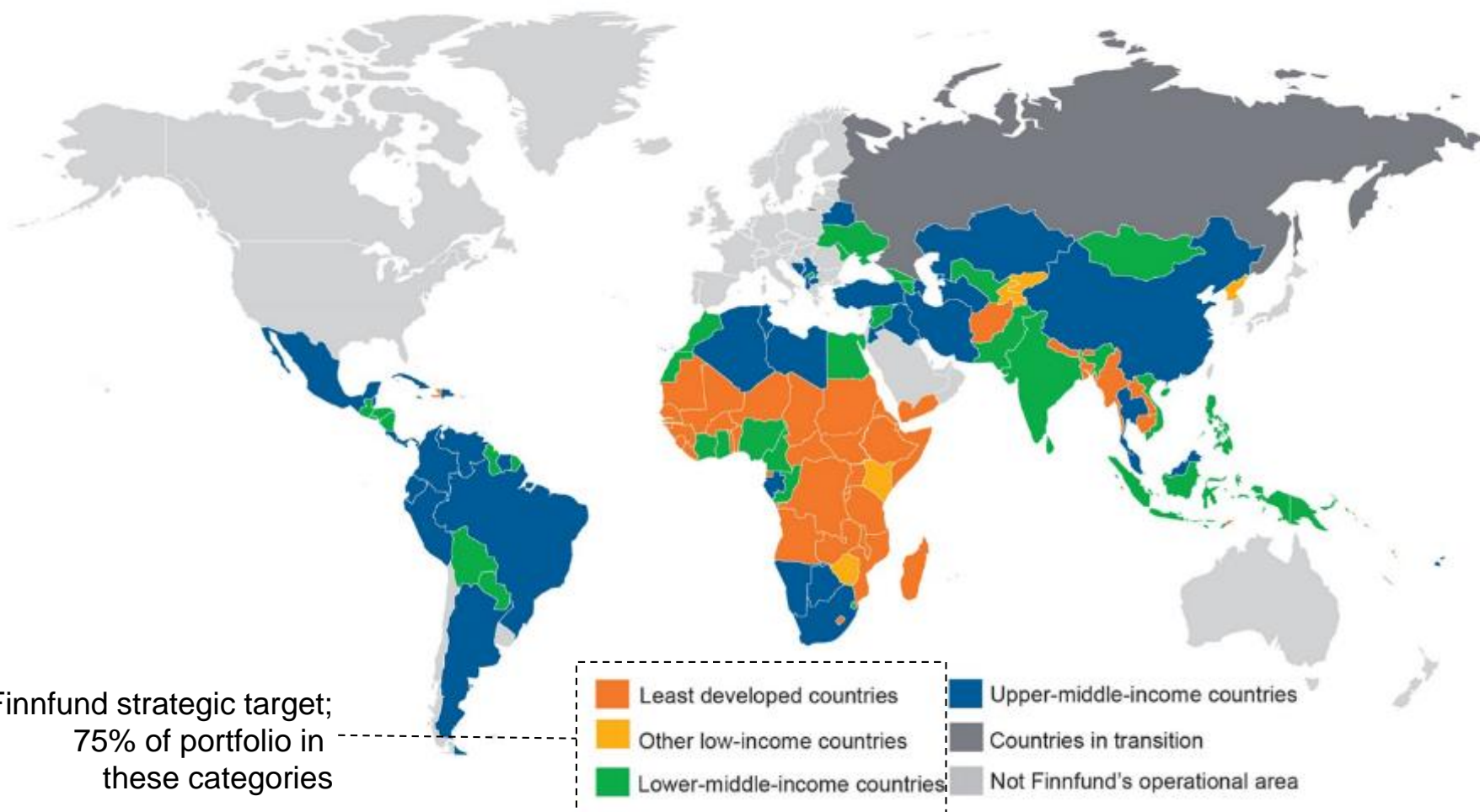


Impact investing for 35+ years

- Aiming to foster sustainable development and achieving the Sustainable Development Goals (SDGs) by empowering sustainable and profitable businesses in developing markets
- Projects with good development impacts and responsible implementation – both greenfield projects and expansion projects
- High risk appetite - providing long-term financing for projects that otherwise might not happen
- Annually $\frac{3}{4}$ of the invested volume go to
 - least developed countries and other low-income countries
 - lower-middle-income countries
 - post crises countries and regions
- Main industry focus on sustainable forestry and clean energy



Finnfund's target countries by income level







Focus area: Sustainable forestry

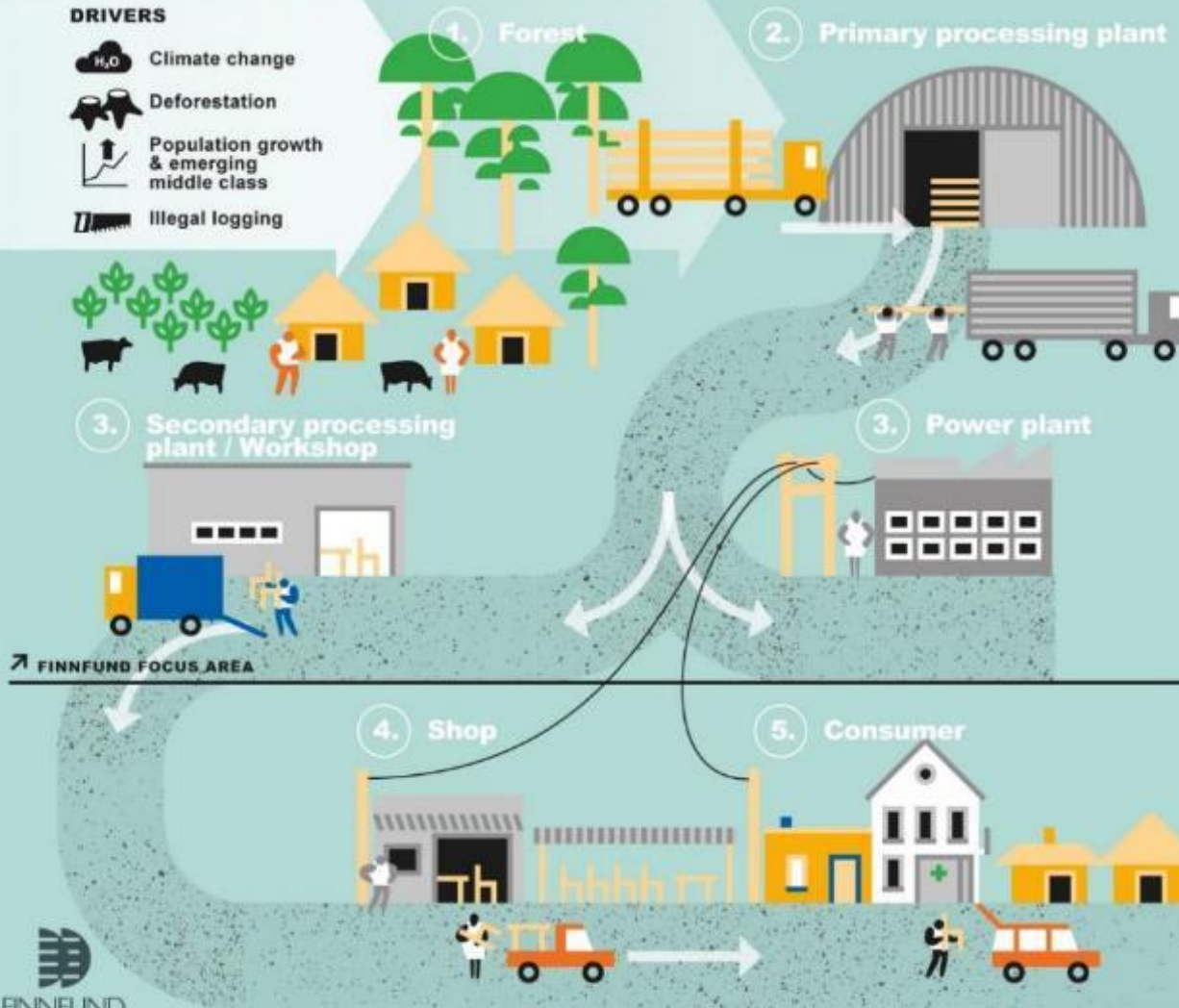
- Sustainable forestry is one of the two key industry sectors of Finnfund
 - Direct investments in more than 10 forestry companies
 - Many more companies supported through forestry funds
 - Investments in Africa, Asia and Latin America
 - Team specialized in sustainable forestry
- Commercial plantations and related industries, such as sawmills, panel & board mills
 - Emphasis on greenfield forestry and companies in transition phase to industrialization
 - Total 100.5 million euros (portfolio and commitments, as of August 2017)
- Planting more commercial forests is the only way to tackle the unsustainable equation of deforestation, growing population and increasing wood demand in developing countries.



SUSTAINABLE FORESTRY Value chain

DRIVERS

-  Climate change
-  Deforestation
-  Population growth & emerging middle class
-  Illegal logging



SUSTAINABLE FORESTRY

- Fighting against climate change and deforestation
- Enhancing product quality
- Increasing domestic production and employment – enhancing balance of trade
- Increasing legal trade of wood
- Developing rural areas
- Increasing public revenue

CHALLENGES

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

GROWING NEED FOR SUSTAINABLE ROUNDWOOD (billion m³ / year)

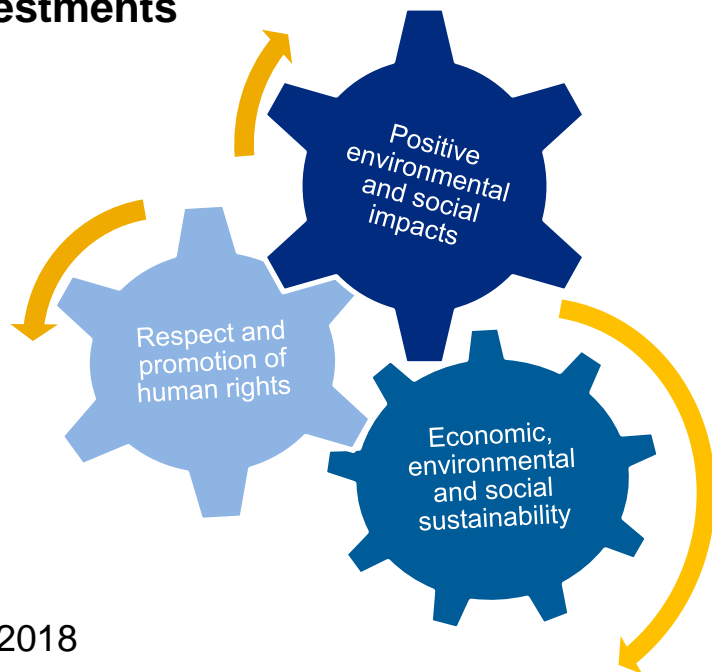


- More pressure to cut natural forests. Forest loss is already a major problem particularly in Africa and South America.
- SOURCE: FAO, INDUFOR

Sustainability is in the core of our business

We believe that sustainable business practices can have a positive impact on the competitiveness and financial performance of the company.

Key issues when assessing potential investments



Benefits of environmental and social sustainability

- Improved operational and financial performance
- Risk management – guard against unforeseen risks and impacts
- Competitive advantage
- Enhanced community support and social license to operate

IFC Performance Standards

1 Assessment and management of environmental and social risks and impacts

Identifying E&S risks and impacts, and managing E&S performance throughout the life of a project.

2 Labor and working conditions

Recognizes that the pursuit of economic growth through employment creation and income generation should be balanced with protection of basic rights for workers.

3 Resource efficiency and pollution prevention

Recognizes that increased industrial activity generate higher levels of air, water and land pollution, and that there are efficiency opportunities.

4 Community health, safety, and security

Recognizes that projects can bring benefits to communities, but can also increase potential exposure to risks and impacts from incidents, structural failures, and hazardous materials.

5 Land acquisition and involuntary resettlement

Applies to physical or economic displacement resulting from land transactions such as expropriation or negotiated settlements.

6 Biodiversity management and sustainable management of living natural resources

Promotes the protection of biodiversity and the sustainable management and use of natural resources.

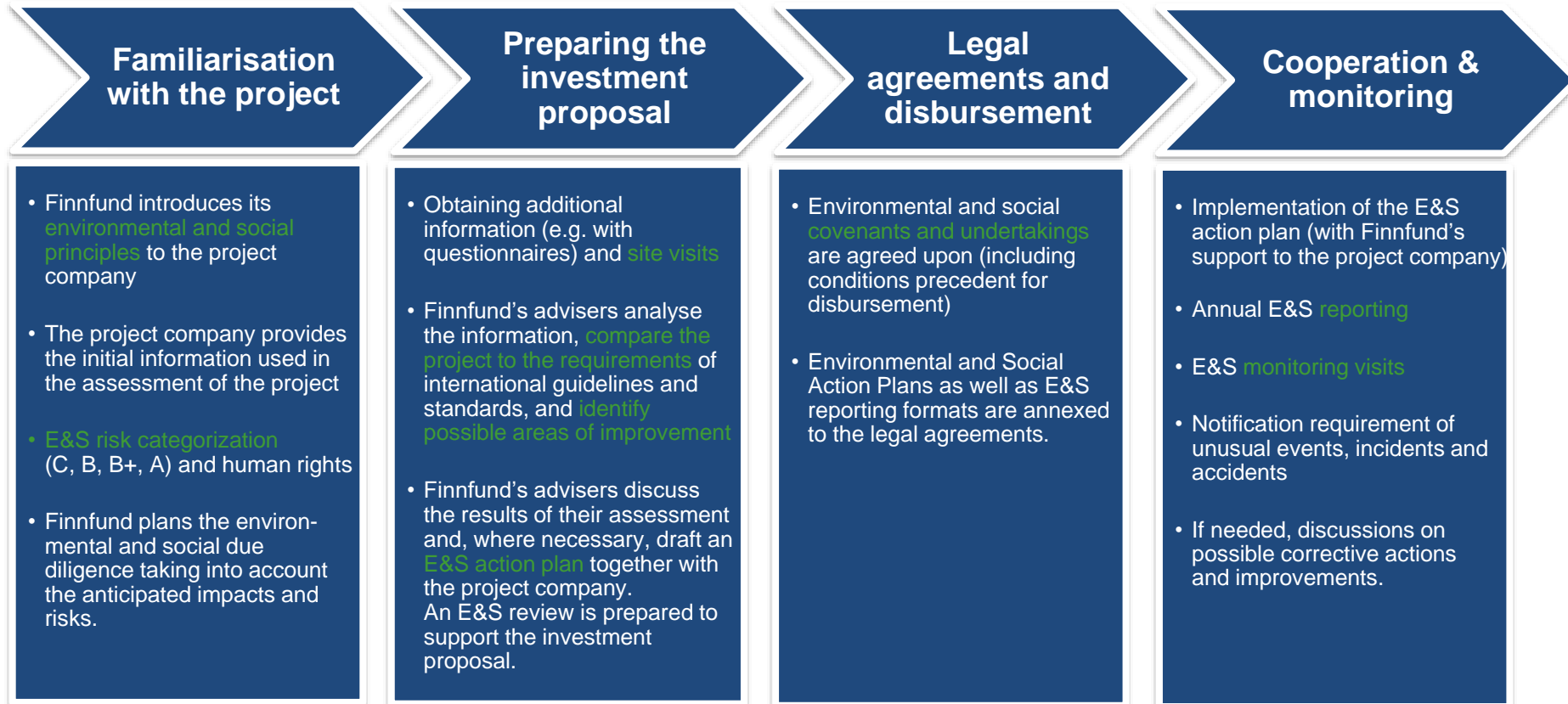
7 Indigenous peoples

Aims to ensure that the development process fosters full respect for Indigenous Peoples.

8 Cultural heritage

Aims to protect cultural heritage from adverse impacts of project activities and support its preservation.

Environmental and social sustainability in the financing process





**Examples and lessons on
company-community partnerships**

Examples of company-community collaboration in practice

Third party timber is needed > Outgrower systems

- Companies integrate small holders and communities to supply chains
- Transfer of knowledge and technology (e.g. improved genetic material)
- Can require significant investment from the company but also in company interest to secure long term supply
- Can provide complementary livelihoods to local people and communities



Examples of company-community collaboration in practice

Clarity on land is needed > Processes to clarify land and resource tenure

- Companies can help in securing land and resource tenure – e.g. joint mapping, boundary clarification, help in registering land – typically needed prior to any operations start
- Formalized access arrangements on ecosystem services – e.g. memorandum of understanding or other agreements on access



Examples of company-community collaboration in practice

Land is needed > Evolving models for land acquisition

- From concessions to leasing land from farmers and communities
- Benefits negotiated jointly, may include e.g. payments, community projects, employment opportunities, agroforestry opportunities, swapping of services
- Also full supply by communities



Examples of company-community collaboration in practice

Service provision by local communities

- Some investees are jointly with local communities developing new service provision models
- Performance based remuneration for services provided (detection of fire, theft, environmental issues etc.)
- From donor and recipient to business partners



Some key lessons on company-community collaboration

- Companies and communities can find different mutually beneficial ways to collaborate
- Companies and communities can do business together
- Need to build and maintain a good basis for partnerships:
 - Understand the country and local context and any related past legacies and also how company operations may affect these
 - Understand local culture and legal and customary ownership and land use patterns
 - Carry out broad and well documented stakeholder dialogues and maintain continuous dialogue throughout company life span
 - Clarity on land and resource tenure
 - Design company operations to match the local context and find mutually beneficial ways to operate
 - Invest in local communities, capacities and relationships
 - Avoid raising expectations which cannot be met
- Public sector has an important role in supporting and promoting the responsibly operating forest companies

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<http://team.finland.fi/en/frontpage>