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 ¾ 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

Loan Medium to long-term investment loans
Mezzanine Subordinated and convertible loans, preferred shares
Equity Risk-sharing as a minority shareholder
Finnfund’s target countries by income level

Finnfund strategic target; 75% of portfolio in these categories.
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

1. Forest
2. Primary processing plant
3. Secondary processing plant / Workshop
3. Power plant
4. Shop
5. Consumer

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)
- PRODUCTION 2015: 1.8
- NEED 2030: 4-5

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

- **Positive environmental and social impacts**
- **Respect and promotion of human rights**
- **Economic, environmental and social sustainability**

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
<table>
<thead>
<tr>
<th>IFC Performance Standards</th>
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<tbody>
<tr>
<td><strong>1 Assessment and management of environmental and social risks and impacts</strong></td>
<td><strong>5 Land acquisition and involuntary resettlement</strong></td>
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<tr>
<td>Identifying E&amp;S risks and impacts, and managing E&amp;S performance throughout the life of a project.</td>
<td>Applies to physical or economic displacement resulting from land transactions such as expropriation or negotiated settlements.</td>
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<td><strong>2 Labor and working conditions</strong></td>
<td><strong>6 Biodiversity management and sustainable management of living natural resources</strong></td>
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<tr>
<td>Recognizes that the pursuit of economic growth through employment creation and income generation should be balanced with protection of basic rights for workers.</td>
<td>Promotes the protection of biodiversity and the sustainable management and use of natural resources.</td>
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<tr>
<td><strong>3 Resource efficiency and pollution prevention</strong></td>
<td><strong>7 Indigenous peoples</strong></td>
</tr>
<tr>
<td>Recognizes that increased industrial activity generate higher levels of air, water and land pollution, and that there are efficiency opportunities.</td>
<td>Aims to ensure that the development process fosters full respect for Indigenous Peoples.</td>
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<tr>
<td><strong>4 Community health, safety, and security</strong></td>
<td><strong>8 Cultural heritage</strong></td>
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<tr>
<td>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.</td>
<td>Aims to protect cultural heritage from adverse impacts of project activities and support its preservation.</td>
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Environmental and social sustainability in the financing process

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<tr>
<th>Familiarisation with the project</th>
<th>Preparing the investment proposal</th>
<th>Legal agreements and disbursement</th>
<th>Cooperation &amp; monitoring</th>
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<tr>
<td>• Finnfund introduces its environmental and social principles to the project company</td>
<td>• Obtaining additional information (e.g. with questionnaires) and site visits</td>
<td>• Environmental and social covenants and undertakings are agreed upon (including conditions precedent for disbursement)</td>
<td>• Implementation of the E&amp;S action plan (with Finnfund’s support to the project company)</td>
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<td>• The project company provides the initial information used in the assessment of the project</td>
<td>• Finnfund’s advisers analyse the information, compare the project to the requirements of international guidelines and standards, and identify possible areas of improvement</td>
<td>• Environmental and Social Action Plans as well as E&amp;S reporting formats are annexed to the legal agreements.</td>
<td>• Annual E&amp;S reporting</td>
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<td>• E&amp;S risk categorization (C, B, B+, A) and human rights</td>
<td>• Finnfund’s advisers discuss the results of their assessment and, where necessary, draft an E&amp;S action plan together with the project company. An E&amp;S review is prepared to support the investment proposal.</td>
<td></td>
<td>• E&amp;S monitoring visits</td>
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<td>• Finnfund plans the environmental and social due diligence taking into account the anticipated impacts and risks.</td>
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<td>• Notification requirement of unusual events, incidents and accidents</td>
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<td></td>
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<td>• If needed, discussions on possible corrective actions and improvements.</td>
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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
Contacts & more information

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