



# Evaluation of the Finnfund Special Risk Instrument

**Ministry for Foreign Affairs of Finland  
Summary Report**

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# 1 Introduction

## 1.1 Background

The Development Policy Programme of the Finnish Government for the period 2012-2015 put a strong emphasis on increasing the development impact of all ODA funded activities, including those of Finnfund. As a consequence the Ministry for Foreign Affairs of Finland (MFA) ownership steering of Finnfund was changed so that more emphasis was put on investments that generate measurable development impact and the balance of the investment portfolio was to be shifted towards lower middle-income and least developed countries. A Special Risk Instrument (SRI) was conceived to cover part of the anticipated risk increase in Finnfund's investment portfolio due to this change.

Based on paragraph 3 of the Finnfund Act and authorized thereto by the Cabinet, the MFA issued on October 2012 a special risk guarantee to Finnfund, that covered a credit and investment loss up to 80% in investments to be selected by the Board of Finnfund. The Board's selection was to be based on development policy guidance given by the MFA and the percentage of each investment to be covered by the MFA guarantee depending on the risk classification of the project. In 2012 MFA provided guidance to Finnfund on the use and targets of the SRI instrument. During the period from 2013 – 2017 the MFA has on annual basis given guidance to the Board of Finnfund. There has not been any substantial change in the central targets of the guidance for the years covered by the instrument.

The special risk guarantee provided by the MFA was capped at EUR 50 million and new investments could only be approved for cover by the guarantee until the end of 2015. The guaranteed investments (between years 2012-2015) remain covered by the guarantee until Finnfund exits the investments.

## 1.2 Objectives of the evaluation

In brief, the objective of the evaluation was to provide evidence regarding how the special risk instrument has changed the portfolio management of Finnfund and put that in relation to the objectives stated by the MFA when establishing the special risk guarantee. The evaluation considers the changes in the risk composition of the investment portfolio of Finnfund and the development policy objectives for the portfolio of the special risk guarantee set by the MFA guidance note to the Board of Finnfund.

The objective was further to analyse the guarantee's development and environmental impacts and to assess whether the commercial due diligence of the investments has met the same standards as for the rest of the Finnfund's portfolio.



## 1.3 Methodology

The evaluation was conducted by reviewing documents provided by the MFA and by Finnfund. The review was complemented with internet searches. In addition, relevant Finnfund representatives were interviewed and project information was collected through a sample of field visits.

Data analysis methods comprised of both quantitative and qualitative methods. The former were mainly performed by calculating frequencies, and the latter by focusing on their contents. In order to aim at validation of the results, triangulation of the results was used whenever relevant.

### 1.3.1 Document analysis

Relevant background materials and documents were studied and analysed. Among others, the following documents were reviewed and analysed:

- Background information of Finnfund including the strategy, ownership policies and guidelines, organisational structure and administration of the investment portfolio, different financial instruments and operational area;
- Policies and guidelines in relation to the SRI such as the MFA guidance note to the Finnfund Board, The Commitment Letter of the SRI issued by the MFA to Finnfund, the Finnfund Act and the MFA Ownership Guidance Notes to Finnfund 2013-2017;
- Policies and guidelines for application, evaluation and selection of the investments, including an commercial due diligence of the investments within the special risk guarantee portfolio and the development effect assessment tool for investment evaluations;
- Content of Finnfund's investment portfolio and changes in the risk composition of the overall investment portfolio after launching the special risk guarantee; and
- Other relevant information provided by the MFA and Finnfund.

### 1.3.2 Data analyses

The data analyses on the portfolio projects took place by analyzing the entire SRI portfolio.

The first step in the risk analysis was to look into the country allocation in order to understand how the country spread of the SRI investments differs from the total Finnfund portfolio.



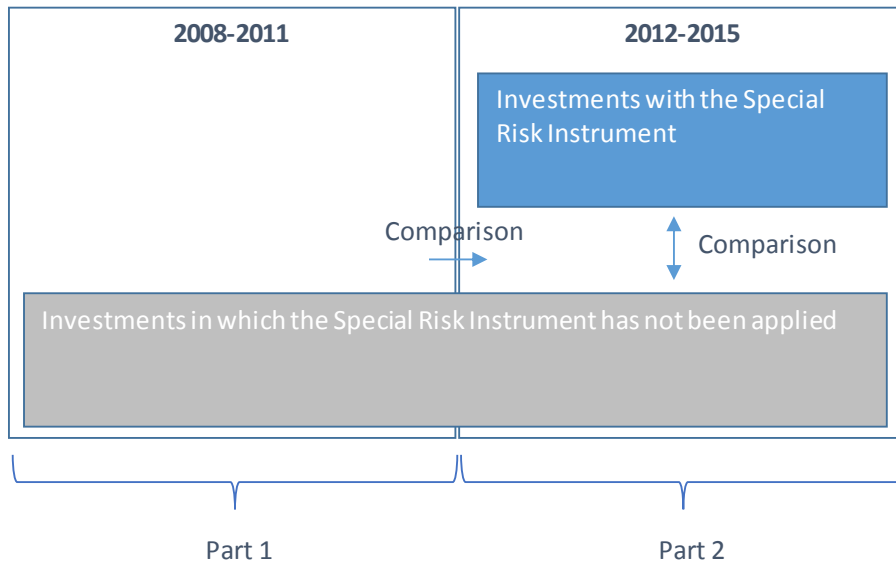
A comparison of the risk scoring of the SRI portfolio compared to the entire investment portfolio was conducted. Risks are assessed both at a project level and Finnfund level. The project level risk is defined as the risks associated with the project at a standalone basis while the Finnfund risk is defined as the credit risk associated with the project however considering the form of funding and risks related to different instruments.

Further a comparison of the Finnfund Development Effect Assessment (DEA) scoring of the SRI investments to all other investments decided during the corresponding period 2012-2015 was performed.

In order to further form an objective view of the development impacts we also carried out an analyse of a sample of other investments compared to the SRI investments. The sub-sample was selected randomly reflecting an average of the portfolio. This sample based analyse compared the information of the entire SRI portfolio to Other investments both for the period prior to SRI became effective 2008-2011 and to Other investments from the effective period of the SRI from 2012-2015. A sample of 36 projects were selected thus giving an indication of the risk level relevant for these periods.

In addition to analysing financial and country risks the objective of the sub-sample was to analyse to what extent the expected development and sustainability impact aspects have been considered and emphasised in the investment memos and compare SRI investments to Other investments. The investment memos' contain summarized key information about the projects and are important documents underlying the investment decisions taken by Finnfund. The key analysis in terms of development impacts followed the development policy objectives for the portfolio of the SRI including, climate change, environment, social issues, governance and economic sustainability impact. It is however important to recognise that this part of our analyses was limited to the information considered and highlighted in the investment memos and did not cover the broader data evaluated by Finnfund as part of the investment decision including the DEA scoring and assessment of other eligibility criteria.

The following graph illustrates the approach:



Graph 1. Methodology used in risk composition analysis and portfolio management.

In the data analyses, statistical measures such as frequencies, percentages and averages were used. The rationale for choosing these measures was to ensure a transparent and easy-to-understand report.

### 1.3.3 Interviews

The aim of the interviews was to find out which criteria has determined the application of the instrument, and how the portfolio management took place in investments with and without the application of the Special Risk Instrument. The target group of the interviews were the key decision makers and analysts in Finnfund, as well as selected project representatives.

Personal interviews provide rich and detailed data that cannot be obtained through a survey. The interviews were supported with a semi-structured questionnaire.



### List of Interviewed Persons

Name	Position	Organisation
Jaakko Kangasniemi	Managing Director	Finnfund
Helena Arlander	Director, Portfolio and Risk Management, Alternate to Managing Director	Finnfund
Tapio Wallenius	Director, Development Impact and Strategy	Finnfund
Juho Uusihakala	Senior Development Impact Adviser	Finnfund
Sylvie Fraboulet-Jussila	Environmental Advisor	Finnfund
Karoliina Lindroos	Environmental and Social Advisor	Finnfund
Tuomas Suurpää	Senior Investment Manager	Finnfund
Riikka Molander	Senior Portfolio Manager, Ethiopia's fund project responsible	Finnfund
Mikko Kuuskoski	Associate Director, Ethiopia's telecommunication project responsible	Finnfund
Helena Teppana	Associate Director, Ruanda's peat project responsible	Finnfund
Ari Nironen	Senior Investment Manager, Ethiopia's furniture project responsible	Finnfund
Hakan Karasoy		HQ Power
Nkurikiyumukiza Gaspard	Adviser to the office of CEO YUMN Ltd	Hakan-Quantum Biomass Fired Power Plant
Chandra Kant Mishra	Branch Director	Shapoorji Pallonji (EPC)
Avtar Narang	Delegation Team at Site	Shapoorji Pallonji (EPC)
Dov Savidor	Chief Operations Officer	HQ C.O.O.
Thierry Artaud	Chairman	M-Birr Limited
Greg Metro	Managing Director	Schulze Global Ethiopia Growth and Transformation Fund I, L.P
Eyob Tolina	Director	Schulze Global Ethiopia Growth and Transformation Fund I, L.P
Sini Puustinen (née. Wang Quian)	Founder, General Manager	SINI Furniture
Henrik Puustinen	Vice CEO	SINI Furniture



#### 1.3.4 Field visits

The desk top study and interviews in Finland were followed by a field visit to four specific investments. During the field visits, interviews were made and evidence was gathered on how the objectives given for the SRI by the MFA has been met in the specific investments. For all of the selected investments the following material was analysed:

- Background information of the specific investments visited and their position in Finnfund's investment portfolio;
- Policies and guidelines in relation to the specific investments and how the policies and guidelines have been applied to; and
- The evaluation and selection process of the specific investments.

The field visits took place in November 2017. Three projects in Ethiopia and one in Rwanda were visited.



## 2 Executive Summary

The results of the evaluation clearly demonstrate that the Special Risk Instrument (SRI) has changed the overall investment portfolio of Finnfund. The investments which are under the SRI portfolio have been directed towards projects with higher development impact compared to Other investments within the Finnfund portfolio. The investments covered by the SRI have shifted the portfolio towards lower middle-income and least developed countries. The instrument has been of relevance for changing the composition of the Finnfund portfolio towards higher risk investments with a higher expected development impact targeting a higher level of poor people.

The guarantee has been effective and fully allocated to investments with the exception of two investment decision corresponding to a total of 16.4 % of the SRI, which have not been contracted. In order to increase the effectiveness a mechanism for reallocation of the guarantee funds should be considered for potential future instruments.

The SRI investments are still at a relatively early stage considering the total funding cycle and so far no credit losses have been claimed by Finnfund through the mechanism. There are projects within the SRI portfolio that currently are exposed to credit risks and that are likely to be claimed by Finnfund under the guarantee mechanism.

One of MFA guidance note's development policy objectives for Finnfund's portfolio of the special risk instrument is to target three of the lowest income countries by DAC country classification coding: Lower Middle Income (LMIC), Low Income (LIC) and Least Developed (LDC) countries. Finnfund's special risk guarantee portfolio includes 16 investments, which all are in LDC (81,3 %), LIC (6,3 %) and LMIC (12,5 %) countries. Based on statistical analyses the SRI investments have been targeting projects in countries of lower income levels compared to Other investments in the Finnfund portfolio.

According to the Finnfund management the instrument has been of high relevance and without the guarantee in place Finnfund would not have been in a position to approve an investment portfolio with the current risk composition.

The risk rating scale currently applied by Finnfund has been in use since 2004. According to the risk classification policy, the aim of rating investments is to ensure comparability and to give a truthful description of Finnfund's investment portfolio risks. All the investments making use of the risk guarantee are all in the higher risk categories of investments, with risk ratings between C – CCC.

Finnfund uses the same process and tools for assessing and evaluation all funding applications. The due diligence process is the same for all funding applications and the decision making process does not distinguish for the SRI investments.

Finnfund uses a tool called the Development Effect Assessment Tool (DEAT) for assessing the expected development impact of all investments. DEAT is an essential part of Finnfund's system for analysing and evaluating the expected outputs/outcomes of its portfolio projects in terms of developmental effectiveness and impact.



Based on the DEAT scoring the projects are categorized into three groups. The projects with the highest scores are categorized as excellent, the project with the middle scoring are classified as good and those with the lowest scoring as satisfying. Overall, the SRI portfolio based on the DEAT scoring has a higher level of impact compared to the total portfolio.

Data analyses indicate that the development aspects have been more frequently considered and highlighted in the investment material of SRI investments compared to Other investments. The results show that the expected environmental impacts were more frequently considered in the SRI investments compared to the Other investments.

The four project visits confirm that the development, including environmental and social aspects have been considered in these SRI projects. The investments visited, representing different sectors, contributes positively to the development impacts.

For the four SRI projects visited the funding from Finnfund has been important and has enabled the investment to take place. The documentation and awareness of the projects in Finnfund corresponded to the status in the field, indicating active portfolio management.



### **3 Special Risk Instrument Portfolio**

The Special Risk Instrument was taken into use in the autumn of 2012 and was available for investment decisions until the end of 2015. The total guarantee of EUR 50 million was used and allocated to investments made during the period.

The instrument was used in a total number of 16 investments. Most of the projects are located in Africa, 10 out of 16. Five are of the investments are in Asia and one is a global fund that may also target investments in Latin America. Four of the SRI investments are within the forestry related sector. Two of the projects are within the wind power and one is within the solar power sector. The Other investments are in energy efficiency, biomass production, IT/payment technology, clothing and furniture industry.

The SRI investments are still at a relatively early stage considering the total funding cycle and so far no credit losses have been claimed by Finnfund through the mechanism. There are projects within the SRI portfolio that currently are exposed to credit risks and that are likely to be claimed by Finnfund under the guarantee mechanism.

## 4 Analyses of Changes in Risk Composition

The first section of the analysis looked into the country allocation in order to understand how the country spread of the SRI investments differs from the average portfolio and from investments not covered by the SRI.

The second section analysed the risk assessment criteria applied by Finnfund on all investments and compared the SRI investment risk ratings to the average portfolio of Finnfund and the investments not covered by the SRI. As part of the evaluation of fund applications risks are assessed and scored both at a project level and Finnfund level. The project level risk is defined as the risks associated with the project at a standalone basis while the Finnfund risk is defined as the credit risk associated with the project.

Risk level ratings were compared both at the time of the investment decision and as per August 2017. Finnfund is assessing risks on ongoing basis and risks are updated approximately three times a year.

### 4.1 Country Allocation

One of MFA guidance note's development policy objectives for Finnfund's portfolio of the SRI is to target three of the lowest income countries by DAC country classification coding: Lower Middle Income (LMIC), Low Income (LIC) and Least Developed (LDC) countries. Finnfund's special risk guarantee portfolio includes 16 investments, which all are LDC (81,3 %), LIC (6,3 %) and LMIC (12,5 %) countries. This finding supports the conclusion that the SRI investments have been directed towards poorer countries.

Other investments (Non-SRI, years 2008-2011 and 2012-2015) are mostly in LMIC and UMIC countries. Thus, the SRI investments are operating in countries of lower income levels compared to Other investments.

The table below presents a comparison of DAC-classification of Investments with the Special Risk Instrument and a sample of Other Investments for the periods 2008-2001 and 2012-2015:

DAC classification allocations	SRI		Other projects 2008-2011		Other projects 2012-2015	
	Frequency (%)	€ (%)	Frequency (%)	€ (%)	Frequency (%)	€ (%)
LDC	11 + 2*/16 (81%)	75,3 MEUR (71%)	2*/9 (22%)	15,3 MEUR (29%)	0/11 (0%)	N/A
LIC	1/16 (6%)	22 MEUR (21%)	2/9 (22%)	5,3 MEUR (10%)	0/11 (0%)	N/A
LMIC	2/16 (13%)	9,2 MEUR (9%)	1 + 2**/9 (33%)	19 MEUR (36%)	6/11 (55%)	46,2 MEUR (57%)
UMIC	0/16 (0,0%)	N/A	2/9 (33%)	12,8 MEUR (24%)	5/11 (45%)	34,65 MEUR (43%)

\*The projects have various countries they are operating in of which at least one country's classification is LDC

\*\*The projects have various countries they are operating in of which at least one country's classification is LMIC

The table below presents a comparison of DAC-classification of Investments on the portfolio level without and with SRI investments (August 2017):

DAC classification allocations	Finnfund portfolio without SRI (08/2017)		Entire Finnfund portfolio (08/2017)	
	Frequency (%)	€ (%)	Frequency (%)	€ (%)
LDC	31 (24%)	117,6 MEUR (31%)	39 (28%)	147,3 MEUR (34%)
LIC	16 (13%)	47,8 MEUR (13%)	18 (13%)	79,3 MEUR (18%)
LMIC	43 (34%)	106,3 MEUR (28%)	44 (32%)	107,5 MEUR (25%)
UMIC	28 (22%)	88,4 MEUR (24%)	28 (20%)	88,4 MEUR (20%)

## 4.2 Investment coverage by SRI

The percentage of the investments risk covered by SRI may be at maximum 80 % of the total investment. The coverage depends on risk classification of the investment. The SRI coverage for most projects was 50 % (10 projects), 40-50% (1 project), 40 % (1 project) and 60 % (4 projects).

The risk ratings have been in use in Finnfund since 2004. According to the risk classification instructions, the aim of rating investments is to ensure comparability and to give a truthful description of Finnfund's investment portfolio's risks. The investments covered by the risk guarantee are all high risk investments.

## 4.3 Project risk assessed at the time of investment decision

Project risk ranking scale is AAA (96,0 -100) - D (1-10,9). AAA is to be understood as the best ranking and with low risk, whilst D reflects the highest risks.

Measured at the time of investment, the risk composition has varied from BB to CC for Other investments (2008-2011), with the highest concentration within the groups with risk rating B and CCC. For the SRI projects, the risk composition has varied from B to C, with over more than half of the investments within group with risk rating CC, followed by equal amount of investments with risk rating CCC and C. For Other investments (2012-2015), the risk composition has varied from BB to C, with more than half of the investments in the group with risk rating CCC followed by CC.

Overall, the data shows that SRI projects compared to Other investments (including both 2008-2011 and 2012-2015) have a significantly higher concentration of projects with a higher risk.

Based on the analysis it can be concluded that SRI projects, at the time of investment, have had a higher project risk classification than Other investments (including both 2008-2011 and 2012-2015).

## 4.4 Project risk (August 2017)

In the category of Other investments (2008-2011), the risk rating of the projects varied from BB to CC, which corresponds with the variation at the time of the investments. However, compared to the time of investment, the majority of the projects fell within the categories with lower risk, BB and B. In the category of the SRI projects, the risk composition varied from CCC to C, showing a slight move towards higher risk compared to the time of the investment (B-CCC). Other investments (2012-2015), on the other hand, shows a move towards a slightly lower risk as the risk composition varied from BB to CC, compared to BB-C at the time of investment.



When comparing the risk ratings at the portfolio level it is possible to see that the SRI investments are in risk ratings CCC (4 SRI projects), CC (6 SRI projects) and C (1 SRI project), i.e. among the highest risk categories. This gives an indication that the SRI has been used for more risky investments.

Based on the project risk data from August 2017, it can be concluded that SRI projects have had a higher project risk classification than Other investments (including both 2008-2011 and 2012-2015). The portfolio level analysis indicates that the SRI investments have taken place in projects with high risks.

## 4.5 Finnfund risk

The Finnfund risk is also considering the risks associated with different funding instruments used. The Finnfund risk is followed separately where the risk is categorized between AAA (lowest) and D (highest).

The risk composition for the category Other investments (2008-2011), has varied from B to CC, all equally frequent. For SRI projects, the risk composition varied from CCC to C, with CC being the most frequent group. In the category Other investments (2012-2015), the risk composition varies from BB to CC, with B as the most frequent risk rating, followed by CCC and CC. Overall, the risk composition largely corresponds with the observations made for the projects risk from August 2017, only with Other projects (2008-2011) as an exemption (BB-CC/B-CC).

Based on the analyses of the data for Finnfund risk, it can be concluded that SRI projects have had a higher project risk classification than Other investments (including both 2008-2011 and 2012-2015).

The portfolio level Finnfund risk analysis comparison of “Finnfund portfolio without SRI” compared to “Whole Finnfund portfolio” shows that the SRI investments are distributed in Finnfund risk ratings CCC (3 SRI projects), CC (6 SRI projects) and C (2 SRI project), i.e. in the highest risk categories. In line with the portfolio risk rating analyse this gives indication that the SRI instrument has been used for more risky investments.

## 5 Finnfund investment process

Finnfund finances companies in developing countries and in Russia. Finnfund provides different financial instruments including equity investments, investment loans, mezzanine financing and in some cases guarantees. Investee companies must operate in the private sector or be privatization projects.

Finnfund is by law required to meet its own costs. Also the investments covered by the SRI are required to contribute towards this goal and they should as a rule aim of being commercially sustainable and profitable businesses. Finnfund's investment criteria include profitability, sustainability and to provide a positive development impact in the target country.

Finnfund aims to contribute to the general economic and social development of the countries in which the investee companies operates. The financing is targeting investments to create infrastructure that supports growth, transfer useful technology to developing countries, mitigate climate change, improve profitability and create jobs.

The evaluation procedures by Finnfund include assessments of the proposed project plans, cash flow projections, market and technology aspects, organisational capacity and financial due diligence. The expected financial return is analysed in a systematic manner. The estimated financial return of the SRI projects ranges between 6% - 23 %.

Finnfund uses the same process and tools for assessing and evaluation all funding applications. The due diligence process is the same for all funding applications and the decision making process does not distinguish for the SRI investments.

Finnfund has also developed procedures in order to ensure that environmental and social aspects are integrated into the overall investment process. Finnfund considers environmental and social impacts, benefits, risks and opportunities relevant for each project. For each investment, the degree of detail of the due diligence assessments and the level of requirements imposed to the investments are determined by the nature and scale of the project and the level of associated environmental and social risks as well as impact.

The assessment includes the following procedures in terms of environmental and social impact:

Familiarisation with the project, including:

- Introduction of environmental and social principles to the applicant
- The applicant provides the initial information used in the assessment of the project
- Finnfund plans the environmental and social due diligence taking into account the anticipated impacts and risks.

Preparing the investment proposal

- Obtaining additional information (e.g. with questionnaires) and site visits



- Finnfund's advisors analyse the information, compare the project to the requirements of international guidelines and standards, and identify possible areas of improvement
- Finnfund's advisors discuss the results of their assessment and, where necessary, draft a corrective action plan together with the project company. A review is prepared to support the investment proposal.

#### Legal agreements

- Environmental and social covenants and undertakings are agreed upon (including conditions precedent for disbursement)
- Environmental and Social Action Plans as well as reporting formats are annexed to the legal agreements.

## 5.1 Development Effect Assessment Tool

Finnfund uses a tool called the Development Effect Assessment Tool (DEAT) for assessing the expected development impact. DEAT is an essential part of Finnfund's system for analysing and evaluating the outputs/ outcomes of its portfolio projects in terms of developmental effectiveness.

In its financing decisions the Finnfund Board pays close attention to the DEAT results.

The purpose of the DEAT is to undertake an ex ante assessment of the expected development effects of the given project while it is undergoing due diligence for a potential financing. The tool has specifically been developed to support the investment decisions of Finnfund, where the information gathered serves as a baseline for ex post assessments of the development effectiveness. Based on the DEAT scoring the projects are categorized into three groups. The projects with the highest scores are categorized as excellent, the project with the middle scoring are classified as good and those with the lowest scoring as satisfying. 13 out of the 16 SRI projects were scored as excellent and three as good.

The criteria assessed through the DEAT process reflects to a far extent the development criteria specified in the MFA guidelines to the Finnfund Board.

The assessment criteria with effect and risks are all described systematically in the DEAT manual (prepared in 2014).

The development of DEAT was initiated in 2011 and was at the time named Development Impact Assessment Tool, DIAT. The tool was gradually developed and taken into use. In 2014 the tool was renewed and renamed to DEAT. The forms and scoring scales were updated which make a direct comparison of the scoring of the period difficult. During the period 2012-2015 a total number of 63 investment decisions were taken by Finnfund of which 49 projects were scored. The average scoring of the SRI investments for the period is 194 while the average scoring for the entire portfolio was 159. Even if the scoring might not be fully comparable the result of the comparison provides however a clear indication



that SRI investments have in overall been higher scored in terms of development impact compared to the total portfolio for the corresponding period.



## 6 Sustainability as part of Portfolio Management

This section analysed to what extent the expected development and sustainability impact (including environmental and social aspects) have been considered in the investment memos underlying the investment decisions and compared SRI investments against Other investments. It is important to recognise that this part of the analyses was limited to the information highlighted in the investment memos and did not cover the broader data evaluated by Finnfund as part of the investment decision including the DEA scoring and assessment of other eligibility criteria.

### 6.1 Development impact

The MFA guidance note to the Finnfund Board sets clear development policy objectives for the portfolio of the SRI, including that at least 50 percent of the investments should serve people that are poor.

In order to obtain a comprehensive understanding of Finnfund's investment portfolio's development impacts and its possible changes, the SRI projects were compared with a sample of Other investments' development impacts before and during the SRI. Development impacts were analysed based on information derived from the investment memos whenever the information were readily available.

The results of the comparison demonstrate that job creation is considered in all of the SRI investment memos and in nearly all of Other investment memos (including both 2008-2011 and 2012-2015). Some of the SRI investment memos contain temporary job creation, with some investments employing thousands of workers during the construction phase. Also the expected amount of indirect jobs was significant in some investments, for instance when the project is set up in a rural area or the project creates jobs within the production chain, such as transportation and logistics. Finnfund's investment portfolio, both SRI and Other investments, also include fund investments with significant indirect job creation impact.

Improving working conditions and gender equality are part of Finnfund's environment and social assessment. These were visible in the investment memos to a limited extent. Improving working conditions and gender aspects were considered more frequently in the investment documentation for Other investments (2008-2011 and 2012-2015). Educating staff was not eminent in the sample investment memos.

Overall, the results show that the development aspects are more frequently considered in the memos for the SRI investments compared to the memos for Other investments (including both 2008-2011 and 2012-2015). The interview data with Finnfund indicates that the SRI has enabled investments with significant development impacts and with higher financial risk. The interview data with the SRI investments indicates that the projects operate in challenging environment. Already during the time of investment, clear development impacts were possible to identify.



## 6.2 Environment

The MFA guidance note puts significant emphasis on the environmental impacts of the investments. Investments that aid in mitigation and adaptation to climate change or have other significant environmental effects should make up at least 50 % of the portfolio. The investments' environmental impacts were derived from the investment memos whenever the information was readily available.

The results of comparison shows that the aspects of Energy efficiency and/or New technologies were more frequently considered in SRI investment memos. In respect to Renewable energy, the aspect was more frequently considered in the investment memos for SRI projects compared to Other investments (2012-2015).

Overall, the results show that environmental aspects have been more frequently considered in the Investment memos of SRI projects compared to the Investment memos of Other investments (including both 2008-2011 and 2012-2015) The Finnfund interview data indicates that the SRI has enabled risky investments with significant environmental impacts. The interview data for the SRI investments indicates that the environmental aspects are on the agenda of Finnfund in portfolio management.

## 6.3 Social

The MFA guidance note sets clear objectives for the social impact of the SRI portfolio. The investments' social impact were derived from the investment memos whenever the information was readily available.

The results of the comparison show that Health and Safety aspects were more frequently included in the SRI investment memos compared to Other investments for the years 2008-2011 and Other investments for the years 2012-2015. Communities and CSR investments, on the other hand, had the highest frequency the social aspects. In the investment memos the social aspects were considered in 12 out of 16 SRI investments while the frequency was lower for Other investments (including both 2008-20011 and 2012-2015).

In general, the results show that Social impacts aspects have been more frequently considered in SRI investments memos compared to Investment memos of Other investments (including both 2008-2011 and 2012-2015). The interview data with Finnfund indicates that the SRI has enabled investments with remarkable social impacts particularly in rural areas. The SRI investment interview data indicates that the projects operate in a challenging environment and therefore the Finnfund investment has delivered significant changes in social aspects already at the time of investment.



## 6.4 Governance

The analysis on Governance Impact show that tax payments/tax revenue increase is considered more frequently in SRI investment memos, compared to Other investments (2008-2011) and Other investments (2012-2015).

Overall, the aspects related to governance have been more frequently been considered in the Investment memos for the SRI investments compared to the Investment memos of the Other investments (including both 2008-2011 and 2012-2015). The Finnfund representatives actively engage with their investments, which fosters good governance in the portfolio management. Interviews with the SRI investments support this finding.

## 7 Field visits

The desk top study and interviews in Finland were followed by a field visit to 4 specific investments in order to verify findings from the desk study. During the field visit, interviews were made and evidence was gathered on how the objectives given for the special risk guarantee by the MFA has been met in the specific investments.

### 7.1 M-Birr (M.O.S.S.) in Addis Ababa, Ethiopia

#### About

M-Birr is a company specialized in the Ethiopian market for the delivery of mobile money services.

The M-Birr mobile payment service promotes the use of electronic money, makes it easier to manage payment transactions and promotes financial security. The M-Birr service can be used to pass payments between small financial institutions and their customers using M-Birr mobile application.

#### Sustainability, impact and key results

The service contributes to the access of new population groups to financial services and enables savings and growth in microfinance. Consequently, the potential impact of the project on the development of the financial market in Ethiopia can be considered as significantly positive. In addition, the project will have a positive impact on the poorest and most fragile population in the country. The project also transfers new technologies to Ethiopia and its indirect educational impacts on small financial institutions are significant. A number of aid agencies in Ethiopia are interested in using the service as it provides the opportunity to streamline development assistance and reduce the operational risks associated with the allocation of grants.



#### Obtaining impact through Finnfund investment

Finnfund's participation in the project has had significant added value and Finnfund's role has been central to the implementation of the project. The potential development impacts of the project are significant in relation to both the project's total investment and Finnfund's investment.

## 7.2 Sini Furniture in Addis Ababa, Ethiopia

### About

Sini Furniture is a furniture company located in Addis Ababa, Ethiopia. SINI designs, manufactures and sells furniture. The demand for company's products exceeds its current capacity.

### Sustainability, impact and key results

Due to the education and skills the workers have acquired, the position of workers in the labor market will be significantly improved and their earnings levels will increase. Over time, trained staff will also switch to other employers, which will enhance the expertise of the Ethiopian carpentry industry.

Sini Furniture has persistently also made inputs to their corporate social responsibility. Particularly the safety of the employees has been in focus.



The project is on-going and the company has clearly established its role in the Ethiopian market towards the clients, and also towards authorities. Sini is an actor that punctually follows the legislation and regulation.

### Obtaining impact through Finnfund investment

Without Finnfund funding, production activities would have continued in small-scale in the existing premises. So far, Finnfund has added value to the project, especially with regard to environmental and social responsibility issues.

## 7.3 Schulze Global Ethiopia Growth and Transformation Fund I L.P. in Addis Ababa, Ethiopia

### About

This is Ethiopia's first private equity fund based on international standards.

Most of the investments target SMEs in selected sectors, selected on the basis of their degree of development, potential, state support programs and the experience base of investment teams. Investments are made in agriculture, the food industry, healthcare, real estate, education, travel and sustainable tourism.



## Sustainability, impact and key results

SGI has done a considerable work in Ethiopia, creating the basis for the establishment of the fund and, if successful, the fund significantly contributes to the development of the capital investment market in the country. Probably the success of the fund will attract other funds and foreign investment, boosting competition and financing supply by leveraging ethnographic companies and ultimately consumers in the country. The Fund's employment effects are estimated to be excellent in relation to invested capital.. Based on the financial forecasts of the Fund's existing investments, the tax effect of the Fund's investment in Ethiopia is also significant.

The fund has an ESG policy for their portfolio companies. The policy has made the companies understand what responsibility / sustainability means.

## Obtaining impact through Finnfund investment

Through the fund, Finnfund may have some opportunities of parallel investments in Ethiopia because other funded development finance companies are generally not interested in the small projects that most of the fund's investments are targeting. The Ethiopian business environment is still very challenging for foreign investors, and Finnfund's ability to make direct investments in the country is limited.



## 7.4 Hakan-Quantum Biomass Fired Power Plant in Akayaru, Rwanda

### About

Rwanda has more than twice to population of Finland, but the power generation capacity of the country is only about a hundredth of Finland's equivalent. Only about a quarter of households have been electrified. Rwanda is a landlocked country with scarce resources and no rail link to any port. Expensive electricity based on imported fuels or direct electrical shortage is a key bottleneck for the country's development. Increasing domestic electricity production is therefore a key strategic goal for the Rwandan Government. This project sets out Finnfund's participation in the 80 MW peat power plant in the southern Rwanda, which will increase Rwanda's power generation capacity by one and a half times.

The environmental classification of the project is A (high risk). Finnfund has thoroughly examined the environmental and social responsibility impact of the project and assessed carbon dioxide emissions. Finnfund requires the project company and project sponsors to commit themselves to operating in accordance with Finnfund's environmental policy.

### Sustainability, impact and key results



The project has significant positive development impacts, such as increasing electricity generation capacity, utilizing domestic fuel, creating direct and indirect jobs, improving farmland for residents and bringing fresh drinking water and health services to the area. The interviews indicate that there is a strong positive attitudinal climate towards the project in the area. The project is estimated to produce about 50% of electricity more economically than other generating production modes (diesel generators and engines). The project is first of its kind in Rwanda and is well on track.

### Obtaining impact through Finnfund investment

Finnfund has been involved in the investment with punctual investigations regarding environmental topics due to the dual attitudinal climate of peat power.

According to the interviews, the trust for other lenders is increased when Finnfund is an investor. The interviews also indicate that the cooperation has been excellent.