



# Corporate Social Responsibility 2014

Printout of the online Annual Report  
[www.annualreport.finnfund.fi/2014](http://www.annualreport.finnfund.fi/2014)

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## Promoting corporate responsibility in developing countries

Finnfund's mission is to generate positive development impacts in the target countries. Finnfund follows responsible practices in its own operations and expects high standards also from its clients and partners. Responsibility of the economic, social and environmental development including transparent corporate governance are important factors in our decision-making.

Prior to investment decisions, Finnfund assesses anticipated development impacts. Information on realized developmental impacts is gathered annually from investee companies.

Finnfund's corporate social responsibility report is published on the Annual Report - website and it can be downloaded also as a [pdf-file](#) (generated from the website).

**”Responsibility is more than just minimizing harmful side-effects. Finnfund financing promotes development and strengthens accountability to stakeholders.”**

- Tapio Wallenius, Senior Adviser



*Photo: Miro Forestry Company and Finnfund*



# Organisation, administration and operating principles

## Organisation

Finnfund, the Finnish Fund for Industrial Cooperation, is governed in accordance with the Act on a Limited Liability Company named Teollisen yhteistyön rahasto Oy (291/79, 'the Finnfund Act').

The mission of Finnfund is to promote economic and social development in developing countries by financing responsible private business operations on a self-supporting basis. The purpose of the company is not to generate a profit for the shareholders.

Finnfund can finance manufacturing, service, infrastructure and financial sectors as well as capital markets. It finances companies to be established or already operating which involve a Finnish interest. In addition to commercial profitability, Finnfund emphasizes positive development and environmental impacts in the projects it finances.

Finnfund provides its customers with equity capital, long-term investment loans and expertise in operating in developing countries.

Finnpartnership, a business partnership programme managed by Finnfund and financed by the Ministry for Foreign Affairs of Finland, provides advisory services for the business activities of Finnish companies in developing countries as well as financial support in the planning and development phases of a project and for training.

At the end of 2014, the State of Finland owned 93.0 per cent of Finnfund's share capital, with Finnvera plc owning 6.9 per cent and the Confederation of Finnish Industries (EK) owning 0.1 per cent. Finnfund is a company entrusted with a special assignment by the State and belongs to the administrative sector of the Ministry for Foreign Affairs. The detailed content of the company's special development policy function is assigned annually by the Ministry for Foreign Affairs on the basis of the development policy programme currently in force.

Finnfund's principles of corporate governance are described in the 2014 Annual Report under the **Corporate Governance** section.

## Corporate social responsibility management

The Managing Director is in charge of corporate social responsibility management and the implementation of related key principles with the assistance of the company's management.

The Director of Administration is responsible for corporate social responsibility reporting and the development of reporting in accordance with the current decisions and guidelines of the principal shareholder, the State of Finland.

The Board of Directors monitors corporate social responsibility management as a part of guiding the operations of the company.

Every employee or other person working for the company is obliged to act in accordance with the principles of corporate social responsibility followed by the company.

Questions related to corporate social responsibility have been considered extensively in the company's operations, guiding decision-making at all levels from the overall strategy to individual investment decisions.

## **Special assignment and development policy mission of the company**

The Ministry for Foreign Affairs defines Finnfund's special development policy assignment and sets goals for the company in terms of development policy, financial profitability and cost-efficiency. The Ministry for Foreign Affairs also monitors the achievement of the goals annually.

The goals set by the Ministry for Foreign Affairs and their achievement are reported to the company's Board of Directors, which participates in guiding the company's operations in accordance with the goals set for it.

The company believes that in 2014 it successfully achieved the main objectives set for it and exceeded them in terms of positive development impacts and cost-effective operations.

Finnfund aims to promote corporate social responsibility both in its own operations and its partners' operations. In 2009, Finnfund signed the principles for sustainable development and responsible financing of the Association of European Development Finance Institutions (EDFI) and is committed to implementing them in its operations. The EDFI principles are in line with the ten principles of the UN Global Compact initiative.

In the autumn of 2011, Finnfund and 24 other development finance institutions signed the Corporate Governance Development Framework, including a common set of guidelines on promoting good corporate governance in the companies they invest in, thus supporting sustainable economic development in developing countries.

The operations of Finnfund and all the companies it invests in must be both environmentally and socially sustainable.

Environmentally sustainable operations include using raw materials economically, recycling effectively, protecting the environment against pollution and climate change and preventing the loss of biodiversity.

Socially sustainable operations include respecting the rights of indigenous peoples, promoting the working conditions and rights of employees, considering health and safety issues, avoiding involuntary resettlement of populations and protecting cultural heritage.

The goals set for Finnfund stress the importance of generating positive development impacts. Since 2009, the company has been developing a tool for the systematic assessment and reporting of development impacts. From 2013 all new projects have been assessed with the tool.

## Values

The values guiding Finnfund's operations were determined in cooperation with the entire personnel. The work was completed in the autumn of 2010, when the values and their definitions took the following form:

### Responsibility

- We finance responsible business operations in developing countries.
- The Finnfund team always does its best.

### Respect

- We respect different cultures, their people and their ways of working.
- We appreciate each other and the work done by others.

### Development

- We have the courage to develop new ways of working under challenging conditions.
- Finnfund supports and encourages its team in continuous development and learning from experience.

### Effectiveness

- Our successful investment projects reduce poverty and inequality.
- We focus on the essentials and use our resources as effectively as possible.

A set of common ground rules has been derived from the values in order to make them a more tangible part of the daily work of all Finnfund employees. Implementation of these values by the company and in the activities of all employees is assessed annually in development discussions.

## Environmental policy

Environmental issues have always played a pivotal role in Finnfund's operations. In 2013 the environmental policy was updated to corporate environmental and social policy which is available on [Finnfund's website](#). An in-house environment manual was completed in 2014, laying out the details of the company's environmental process.

## Stakeholders and stakeholder interaction

The company's most important external stakeholders include the owners, key development policy operators (including non-governmental organisations), operators in the Finnish business sector (particularly the company's client organisations), the company's European sister organisations and co-investors and, on a case-by-case basis, local authorities in the target countries and other parties related to the projects financed by Finnfund.

Finnfund aims to maintain regular and open interaction with its various stakeholders, identify their expectations and possible concerns and respond to these quickly and openly.

In 2014 the company was in active interaction with stakeholders as a result of the interest aroused by certain individual projects.

The Managing Director is responsible for Finnfund's stakeholder communication and interaction in cooperation with the company's management, the Senior Adviser and the Communications Coordinator.

Finnfund requires its investment targets and investee companies to have a channel for interaction with local communities when this is required by the nature of the project.

# Financial responsibility

## Efficiency and profitability of Finnfund's operations

As stipulated in the Finnfund Act, the purpose of the company is not to generate a profit for the shareholders. However, in accordance with the state ownership policy, the company must operate on a self-supporting basis, covering its operational costs and risks through the profits it generates. The state ownership policy defines profitability and cost-efficiency as the goals of the State as an owner. It also says that companies entrusted with special state assignments should strive for financially profitable operations.

The cost-efficiency of Finnfund's operations is assessed by comparing operational costs to investment assets and the value of investment decisions. Finnfund's profitability is assessed primarily by looking at return on equity. The nature of the operations may cause return on equity to vary significantly from year to year, and for this reason return on equity is assessed also as a five-year moving average. Other indicators include impairment losses and the debt-equity ratio.

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 2014 Annual Report.

## Cash flows to stakeholders

### Public sector taxation

Under the Income Tax Act (30.12.1992/1535), Finnfund is a corporation exempted from income tax, and therefore the company does not pay tax on its profits to the State of Finland. In accordance with the act, Finnfund does not distribute dividends to shareholders but reinvests all profits in line with its development policy mission.

Taxes paid in the countries where it operates depend on local laws and in some places on international tax treaties. Substantial payments are generally the consequence of taxable capital gains at project exit. No such capital gains arose in 2014.

In its financial statement for 2014, Finnfund reported tax payments totalling EUR 0.04 million, consisting of withholding taxes and stamp duty in Kenya, China and Turkey.

Numerous companies financed by Finnfund are major direct or indirect taxpayers in the countries where they operate. In 2013, for example, companies financed directly or indirectly by Finnfund reported payments of taxes and similar levies totalling about EUR 434 million. Figures for 2014 are not yet available.



## Shareholders

The purpose of the company is not to generate a profit for the shareholders, and it does not distribute its profits to the owners in the form of dividends or other yields.

## Investments

Due to the nature of the company's operations, the need for investments related to its operations is very small and mainly consists of capital expenditure.

In 2014, Finnfund made new investment decisions worth EUR 115 million to the target countries. The number of new decisions made was 23 in total of 25 investments.

## Financial support and donations for the public good

Finnfund mostly refrains from providing financial support or making donations for the public good and does not engage in any activities regarded as sponsorship.

## Reporting and accounting principles

Finnfund's financial statements and the Report of the Board of Directors are prepared in accordance with the Finnish Accounting Standards (FAS) and the profit and loss account and balance sheet formats of regular companies. Finnfund is not a credit institution referred to in the Act on Credit Institutions (9.2.2007/121) and does not use the profit and loss account or balance sheet formats intended for credit institutions. Since 2013 Finnfund has presented an operational analysis in its Annual Report.

The company reports on its financial position three times a year. The annual financial statements are published in the Annual Report on the company's website after being adopted by the General Meeting of Shareholders. At the same time, the company announces the reporting and accounting principles it followed in the preparation of the financial statements as well as any changes in the principles. In addition, the company prepares two interim reports for internal use, for the periods January to April and January to August. The interim reports are not audited or published.

Finnfund generally requires its investee companies to comply with the International Financial Reporting Standards (IFRS) in their reporting in order to ensure reliability and comparability.

Under certain circumstances, Finnfund may accept financial statements and other financial reports prepared in accordance with the local standards of the target country, provided that there is no reason to doubt their reliability and the procedure is considered justified in the current situation of the reporting company.

# Personnel

## Human resource management

As an employer, Finnfund acts responsibly and perseveringly, encouraging its personnel in continuous learning and professional development.

The Management Team makes decisions concerning personnel policy, while operative responsibility lies with the Director of Administration. Decisions about the remuneration and incentive systems and the salaries of the Management Team members are made by the Board of Directors.

Since 2012, management and leadership have been developed through management team self-assessments, carried out with the assistance of outside consultants. Using the results of this programme, the company has targeted continuous improvement in the work of the management team and the standard of leadership.

With the same aim, a comprehensive 360 Assessment of management and leadership was carried out at the end of 2014.

## Personnel goals

Every year, Finnfund carries out a cooperation procedure in order to prepare a personnel and training plan for the coming year. The company also engages in annual development and goal-setting discussions with all employees, identifying their training needs, following up on the achievement of the previous year's goals and setting new goals for the coming year.

In addition, Personnel Development and Planning Days are held for the entire personnel with the aim of discussing current topics and promoting interaction between the company's personnel and management.

## Number and structure of personnel

At the end of 2014, the company employed 54 people. During the entire year, the average number of employees was 51. The entire personnel of the company is located in Finland in the centre of Helsinki.

During 2014, three permanent employees resigned and three employees were hired by Finnfund. Therefore, exit and entry turnover was approximately 6 per cent.

Based on the duration of employment in years, permanent employees fall into the following categories:

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

The average duration of employment is 10 years for permanent employees.

In terms of age structure, permanent employees fall into the following five-year age brackets:

25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-
1	9	6	5	9	8	7	1

The average age of employees is 45.

The company did not reduce the number of its employees or make any other adjustments in 2014.

In 2014, personnel expenses amounted to EUR 5.1 million, including pension expenses, other social security expenses and voluntary personnel expenses. The company paid wages and salaries totalling EUR 4.1 million in 2014.

## Equality

At the end of 2014, the company employed 38 women, accounting for approximately 70.4 per cent of all employees, and 16 men, accounting for 29.6 per cent of all employees.

Four of the members of the company's Board of Directors were women (57.1 per cent) and three were men (42.9 per cent).

Three members of the company's internal Management Team were women (42.9 per cent) and four were men (57.1 per cent).

Finnfund has an equality plan that emphasises the equality and parity of employees. The fulfilment of the obligations set forth in the Act on Equality between Women and Men is a part of Finnfund's personnel policy and operating culture, both of which are based on transparency, justice, equality and the protection of privacy.

## Remuneration

Finnfund's remuneration system consists of three parts: basic salary, fringe benefits and short-term incentives.

At Finnfund, payroll primarily consists of fixed monthly salaries based on the complexity of the duties and the employees' competence and performance. All duties are classified into job grades every few years, and a pay comparison is conducted annually with an external consultant in order to assess the market level.

The company has an incentive system covering the entire personnel, with the exception of the Managing Director. Employees can receive an incentive bonus corresponding to, at most, one month's salary if the annual targets are met. The incentive system is based partially on the achievement of company-level goals and partially on function-specific goals.

In addition, an individual employee can receive an incentive bonus of up to 1½ month's salary for an exceptional, above-target achievement. Board of Directors decides on the incentive system and its main terms yearly.

In terms of cost effect, the incentives paid in 2014 amounted to approximately 7 per cent of the entire payroll.

## Competence development and training

The entire personnel of Finnfund participates in development discussions every year.

Development discussions are carried out in spring, by the end of February, using special forms developed for this purpose. The forms were updated in 2014 in connection with management and leadership development measures. The discussions focus on matters related to professional competence, quality in work, development and motivation, and consistency with Finnfund's values. They also involve assessing the achievement of the personal goals set in the previous year and setting new personal goals for the coming year.

During the development discussions, all employees have the opportunity to provide feedback on the behaviour and management skills of their supervisor, either directly to the supervisor, to the Director of Administration or the Managing Director.

Finnfund perceives training as a means of implementing its personnel policy and achieving the set goals, and therefore the company has adopted a positive approach to training its employees and continuously developing their competence.

New employees are inducted into the organisation and their duties as they begin working at Finnfund (induction training). During employment, the company aims to maintain and develop the competence of its personnel by offering different types of supplementary and language training as well as training related to current affairs. Training plan and areas of focus at company and function level are reviewed annually as a part of the cooperation procedure and, more specifically, the preparation of the personnel and training plan. The training needs of individual employees are addressed by the employees and their supervisors in annual development discussions, while also agreeing on personal training plans, if necessary.

# Occupational well-being, health and safety

Finnfund always pays attention to its employees' well-being and ability to cope at work as well as their job satisfaction. Job satisfaction and work atmosphere are evaluated from time to time, and the feedback is used in planning operational changes.

Finnfund carries out regularly an evaluation of the employees' well-being with the health care service and retirement pension insurance providers. Evaluation was done in the autumn of 2013, and the results have been dealt with the employees in an event led by an occupational psychologist. Based on numerical review, the results are slightly above the reference material used, but there are also some clear areas for development. These areas are improved systematically, and progress is monitored at regular intervals by conducting a workplace well-being survey.

Employees also have an opportunity in development discussions to raise questions of occupational well-being and job satisfaction, and to provide anonymous feedback via the company's intranet.

The Director of Administration, acting as a labour protection officer, is responsible for occupational health and safety management together with the rest of the company's management. The labour protection committee convenes to deal with matters falling within its field of competence.

The labour protection organisation has assessed the risks of the workplace. It was concluded that the most significant safety risks were related to the safety of travel, the health risks associated with frequent travel and issues related to ergonomics. In the same context, measures were agreed in order to manage and prevent these risks.

The company updates its workplace risk assessments from time to time and aims to respond to changes in risk levels as well as possible new risks without delay.

Part of the personnel moved to new premises in the beginning of 2014 and the risk assessment, rescue plan and personnel has been reorganized during 2014. In 2014 the company arranged training in first aid and fire extinguishing, evacuation drills and a visit to the civil defence shelters of the premises.

Ergonomics is reviewed periodically when new employees join the company or changes are made to workstations. In 2014 there was ergonomics training and an ergonomic assessment of workstations for all staff. Every employee was offered an electrically adjustable desk so as to avoid the health problems of excessive sedentary work.

The employer is not aware of any accidents during working hours or otherwise related to work. In addition, there have been no deaths related to work.

Finnfund monitors the number of sickness absences, developments in the number of sickness absences and the identified reasons for sickness absences continuously in cooperation with the company providing occupational health care services. As a whole, the number of sickness absences is at a regular level and has not changed dramatically over the years.



Finnfund encourages its employees to look after their health and well-being by offering more comprehensive occupational health care services than required by law and by supporting its employees' hobbies related to sports and culture.

The occupational health care services include the limited right to seek specialist medical care and dental care as well as reimbursement for prescription medicine expenses, among other things. Furthermore, people travelling frequently for work purposes have the opportunity to have regular health examinations in order to prevent travel-related health hazards.

In 2014 a systematic model of early support and intervention for work fitness was developed, adopted by the occupational health committee and explained to all employees.

# Environment and society

## Environmental and social management

One of Finnfund's key objectives is to generate positive environmental and social impacts in the target countries. Any negative effects are to be prevented and reduced. One of the conditions for receiving financing from Finnfund is that the investee company must meet the corporate environmental and social responsibility requirements set for it. For each project, the company carries out a separate environmental impact assessment and environmental classification before making the investment decision.

In order to qualify for financing, a project must, among other things, meet the environmental requirements set forth in local legislation and the relevant international standards. The target company must be committed to developing an environmental management system covering the matters relevant to its operations, and to reporting to Finnfund on environmental issues regularly.

The Managing Director is responsible for the management of environmental and social risks in cooperation with the Director of Portfolio and Risk Management. The company has two Environmental and Social Advisers and one Development Impact Adviser. The Environmental and Social Advisers ensure that the environmental and social risks of all Finnfund projects are assessed and monitored throughout the project life cycle.

The Environmental and Social Advisers are also responsible for developing Finnfund's work processes and methods, organising training for the personnel and maintaining international cooperation.

## Key environmental and social impacts and risk management

Finnfund aims to create significant direct environmental and social impacts in the companies it finances and among their immediate stakeholders. It also focuses its finance on achieving indirect environmental and social impacts in the countries where projects are implemented. The environmental and social risks as well as the opportunities related to the projects vary significantly based on the sector, target country and a number of other factors. In its financing operations, Finnfund pays special attention to the management and mitigation of environmental and social risks, while also focusing on reinforcing the positive impacts.

Finnfund has prepared environmental guidelines in order to supplement the company's environmental and social policy. The environmental guidelines document the procedures and responsibilities related to the assessment of environmental and social risks and describe the assessment and monitoring of Finnfund's projects.

In its corporate environmental and social responsibility assessments, Finnfund complies with the standards of the International Finance Corporation (IFC), a member of the World Bank Group, as well as the procedures and standards Finnfund shares with the other European Development Finance Institutions.

The assessment of environmental and social risks covers the environmental and social risk management systems used by the client companies. An assessment is carried out for all investment projects and, on a case-by-case basis, their subcontracting chains, if these are considered to involve environmental or social risks. This procedure has been integrated into Finnfund's financing process.

Finnfund aims to maintain close cooperation with its clients in order to avoid adverse environmental and social impacts and improve its clients' capabilities in related issues.

## Climate change

Finnfund aims to finance projects that reduce greenhouse gas emissions or help adapt to climate change. A significant part of the company's financing is targeted at projects involving renewable energy or improving energy and material efficiency as well as projects that mitigate climate change. The company does not finance any coal-fired power plants or hydropower projects involving large dams that cause extensive displacement of populations.

In compliance with the requirements of the Organisation for Economic Co-operation and Development (OECD), Finnfund reports to the Ministry for Foreign Affairs of Finland regularly on those projects that are significant in terms of climate change prevention and adaptation. Finnfund's operations create climate finance flows and thus serve to meet Finland's international climate finance commitments.

Due to the nature of Finnfund's operations, the company's employees must travel to the target countries quite frequently. Therefore, air travel is the most significant factor in the company's operations causing greenhouse gas emissions, but as a whole and in comparison with the impact generated by the investee companies it is considered minor.

The company aims to control the need for air travel by, for example, developing electronic tools that may replace personal attendance and communication under certain circumstances.

Commuting-related greenhouse gas emissions are curbed by encouraging employees to use public transport by offering them the opportunity to use employer-subsidised commuter tickets and work partially from home.

## Water, waste and energy saving

The water consumption and waste generation within the organisation is insignificant. However, the company aims to improve material efficiency in its operations by, among other things, reducing office paper consumption by means of duplex printing, promoting electronic document management, sorting waste and using energy-saving office equipment and lighting solutions.

The company is not aware of any environmental damage caused by its operations.

In accordance with the international standards followed by Finnfund, the investee companies must improve their resource efficiency by aiming to prevent the generation of waste, recycling the waste that has been generated and operating in a manner that saves water and energy.

# Social impact

## Bribery and corruption

Finnfund has a zero tolerance attitude towards bribery, corruption and potential conflicts of interest. Finnfund requires its personnel, consultants and investees to comply with the principles it follows. Finnfund's participation in financing a certain project is supposed to signal that corruption will not be approved, thereby reducing the possible corruption demands faced by the investee company. In some target countries, this is an essential part of the added value generated by the company for its clients.

The company has internal guidelines on the giving and receiving of gifts and hospitality. The company requires its personnel to behave in a good but restrained manner suitable for somebody representing a development finance institution and to avoid potential conflicts of interest and influence attempts.

Furthermore, the company has drawn up internal guidelines on potential conflicts of interest and insider information that all employees are expected to follow.

As the guidelines were being implemented, they were presented to the entire personnel and discussed in detail. New employees are familiarised with the guidelines during induction. The guidelines are permanently available on the company's intranet.

Any consultants used by the company are required to follow the same guidelines by way of agreement.

Finnfund aims to communicate its zero tolerance attitude towards corruption and potential conflicts of interest to all investees even before making the investment decision. Finnfund also monitors the operations of the target companies throughout the financing process. Finnfund requires that all investee companies undertake to refrain from corruption as they sign an agreement with Finnfund. Any suspicions of abuse are taken very seriously by Finnfund and immediately lead to taking the measures deemed necessary under the circumstances.

The company follows an established procedure in investigating the background and potential conflicts of interest of individuals working for clients and investee companies. These investigations are carried out during project preparation.

## Measures against money laundering and terrorist financing

Finnfund has registered as a party subject to the reporting obligation set forth in the Act on Detecting and Preventing Money Laundering and Terrorist Financing. The company has guidelines on anti-money laundering and terrorist financing procedures. The company has an



organisation required by law, and it has implemented the procedures required by its guidelines. Employees have received training on the procedures required by the guidelines in several sessions.

## **Political influence**

Finnfund does not support political activity. It does not offer monetary gifts or other support to political parties, politicians or other parties it identifies as being close to these.

However, this does not apply to minor anniversary gifts or comparable tokens of appreciation provided to members of the company's Supervisory Board or natural persons in a corresponding relation to the company.

At the project level, the company reviews the political conflicts of interest of all parties involved in a specific project and assesses the implications of these conflicts on a case-by-case basis.

## **Restriction of competition**

Finnfund does not generally compete for clients with commercial investors, as its operations are guided by the requirement to focus on generating positive development impacts in the company's target countries and to operate on a self-supporting basis in the long term. However, Finnfund may co-invest and share risks with commercial investors, provided that the other requirements set for the investment decision are met.

Increasing market competition for the benefit of consumers in the target countries is one of the developmental impacts pursued by Finnfund through financing and paid attention to in the assessment of developmental impacts.

## **Compliance with laws and regulations**

Finnfund aims to comply with all applicable laws, regulations best practices in its operations and does not deliberately violate any of these or allow its personnel to do so.

The company also requires similar commitment from its investees, consultants and service providers.

# Human rights

It is well known that human rights problems have been identified in several of Finnfund's target countries. Through its activities and participation, Finnfund aims to promote human rights in the projects it finances by using the means available to it.

Generally, one of the conditions for receiving financing from Finnfund is that the investee company must, by way of agreement, undertake to comply with the core labour standards of the International Labour Organization (ILO) as well as the Performance Standards on Environmental and Social Sustainability of the International Finance Corporation (IFC), a member of the World Bank Group. Human rights issues are addressed extensively by both standards.