



## Managing Director's report

### Solar became reality

A new sun began to shine in millions of small homes in 2014. Solar panels, once an expensive luxury of the rich, became a competitive way of generating electricity in sunny countries. Solar power attracted greater investment than ever before, and the focus of construction shifted from countries of generous subsidies to places of generous sunshine.

This breakthrough was underpinned by long-term efforts to develop technology and production. A large number of Finns, including many working for ABB, have been involved in this work; solar technology has become a Finnish export sector employing thousands of people. It is one of the many fields of clean technology where Finnish companies have tackled some of the thorniest problems that humanity needs to solve.

Solar power plants are inexpensive to operate but costly to build. If they are to be viable alternatives to backyard generators, smoky kerosene lamps and other forms of using fossil fuels, a lot of long-term finance will be required. It is readily available in wealthy, stable countries but the progress of projects in poor countries often depends on development finance institutions.

Finnfund made investment decisions in 2014 on participating in finance for four different solar power projects. The plants will produce clean electricity for more than a million people in Jordan and Honduras. Solar power plants are quick to build so last year's investment decisions will already produce relief this year for an acute shortage of electricity.

In all the projects, calculations showed that solar energy was a less expensive way of generating electricity than the other alternatives. This is important because the poorest people should not have to foot the bill for mitigating climate change.

Last year, solar energy joined other forms of renewable energy and sustainable forestry as focal areas for Finnfund. We are continuing in close cooperation with Finnish players and their partners, as well as other development finance institutions. More projects are under preparation.

## **Efficiency helps environment**

Another gratifying breakthrough that we backed in 2014 concerns energy efficiency. Finland is a land of engineers, where countless small and medium-sized enterprises in various sectors have developed solutions that save energy and materials. The world is already using these to save more energy than Finland in total consumes but many of the solutions have not been adopted much in developing countries and emerging markets.

One way of spreading energy-efficient technology is via an energy service company that looks for opportunities for greater efficiencies, implements the necessary investments on behalf of its customers, and receives revenue from the savings made. With finance from Finnfund, a model like this has been established by a Finnish company – Greenstream Network – and its partners in China. The project company surged forward last year, and the energy-efficiency investments it manages now involve several Finnish companies. For the participants and for Greenstream Network itself, these are reference projects that are intended to unlock new opportunities in China and other new markets, and have already done so.

## **Bigger role for private sector**

The energy sector exemplifies the growing role of the private sector and development finance in development and climate policy. There may have been in the past a place for generous support, in the developing countries, to state-owned companies in general and climate projects in particular. Today it is increasingly hard to justify, as many more companies using a great range of technologies, are seeking to put together profitable projects. Ensuring that good private projects get funded is now more efficient and productive than providing vast subsidies to favoured projects and technologies.

The same is true in many other sectors and circumstances. Even in countries recovering from conflicts, providing enterprise with access to finance is crucial for creating new jobs and expanding the tax base. In complementing and catalysing commercial finance, the aim of development finance is to make the recipients of humanitarian aid into masters of their own destiny. Fragile countries can become new markets.

Finnfund has financed private sector projects in developing countries since 1980. As some of the early target countries have become richer, it today operates mostly in relatively poor countries, particularly in Africa. Operations have been self-supporting, meaning that the funds allocated for Finnfund's equity have not been spent but invested and then reinvested in one project after another. While bringing jobs and other development benefits in the developing countries, the projects have also

created opportunities for Finnish partners. Finnfund has accumulated lots of experience, skills and partners to invest successfully in developing countries.

## **Good results, more opportunities**

In 2014 decisions were made to invest a total of EUR 115 million in 25 projects. Disbursements were at the record level of EUR 73 million and the total invested in projects reached almost EUR 300 million. If undisbursed investment decisions are included, Finnfund's project portfolio exceeded half a billion euros for the first time.

Although the business environment in many target countries is difficult, operations were profitable. Projects financed by Finnfund involved dozens of investments large and small, created jobs and better living standards for thousands of people, and improved the quality or availability of products and services for millions of consumers.

Compared with other Nordic development finance institutions, Finnfund's resources are limited but they are in full use. The increased amount of investment in recent years and the results achieved have been possible thanks to increases in Finnfund's equity, the access to a risk sharing facility with the Finnish government as well as the moderate borrowing that these and Finnfund's profitable operations have made possible. We work at full speed in our lending operations but have had to raise the threshold for equity investments.

Operating prospects from next year onwards will be in the hands of policy-makers elected in spring 2015. Even without new capital, funds can be reinvested from old projects to new ones. This, however, will spell marginalisation in a world where developing country markets are growing and where the role of the private sector expands in development and climate policy. If the equity injections continue and the risk sharing facility is replenished, Finnfund can construct many more bridges between Finnish skills, the needs and demands of developing countries, and international financing possibilities.

I would like to thank Finnfund's customers, staff and other stakeholders for their support in 2014.

**Jaakko Kangasniemi**  
CEO