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FOR SUSTAINABLE FORESTRY AND RENEWABLE ENERGY, DEVELOPING COUNTRIES NEED A PRIVATE SECTOR

8/12/2014

roughly half of Finnfund's investments have been made in companies that exploit the forest sector and renewable energy sources. Its investments in renewable energy in Africa reduce greenhouse gas emissions annually by the amount produced by 300 000 automobiles.



ombero Valley Teak Company, Tanzania

"International development policies after 2015 will look very different from today's, if and when agreement is reached next year on global development objectives and measures to combat climate change, as I hope it will be," predicted **Anne Sipiläinen**, speaking at the start of Finnfund's November development policy seminar.

Sipiläinen is Under-Secretary of State for development cooperation and development policy at the Finnish Foreign Ministry. Sustainable development will be included in development objectives in an entirely new way, she said, with better understanding of the

importance of the private sector for achieving these objectives.

Sustainable development already plays a prominent part in Finnish development policies. For example, Finland spends about 30 million euros a year on support for the forest sector via various channels - multilateral cooperation, regional and bilateral programmes, and non-governmental organisations.

Finnfund is one of the most important instruments of Finnish development cooperation for developing the private sector, in the view of the Foreign Ministry, which is responsible for steering Finnfund. Its investments not only create productive capacity and jobs but also promote social responsibility among target enterprises and good governance in host countries," Sipiläinen said.

TO ELIMINATE POVERTY WE NEED PRIVATE SECTOR INVESTMENTS, NOT MORE REGULATIONS OR MORE BOB GELDOFS."

Lilian Ozanne, the founder and managing director of New Forest Company, told the seminar that he started out by collecting donations for saving the forest of Africa, helped by the famous actor James Gandolfini. New Forest Company is financed by Finnfund and operates in Uganda, Tanzania and Mozambique.

The problem was that, while we were protecting a few hectares of land, the same amount and more forest elsewhere was being destroyed."

Ozanne pointed out that the rural population of Africa needs energy and firewood, and gets them from the forest if there is no alternative. 95 percent of deforestation is for charcoal/cooking fuel. Africa's population is growing rapidly - it is expected to rise from the present 1.1 billion to 2.4 billion by the middle of the century - so demand for wood will increase and more forest will be destroyed unless something is done soon.

the development of private forestry is the only viable solution, he said. Wood for households and industry must be produced commercially and this will not happen unless operations are profitable. Commercial plantations reduce the pressure on other forests. At the same time, they create jobs in the countryside (for example New Forest employs 4000 people) and slow down the exodus to the towns.

African poverty could be eliminated during this generation, Ozanne claimed. "For that we do not need extra regulations or more Bob Geldofs but private sector investments."

The challenge is that it takes time to establish forest plantations and grow trees until they are ready for harvesting. Most of the banks and capital investors of African countries do not want to commit to such long-term investments. Either finance is not available or it is unsustainably expensive. There is a pressing need for patient investors – development finance institutions like Finnfund, Ozanne said.



Kilombero Valley Teak Company, Tanzania

THE WORST COMPETITORS FOR SUSTAINABLE FORESTRY ARE COMPANIES THAT OPERATE UNSUSTAINABLY

Edy Nsamba, a plantation manager at a Ugandan subsidiary of Green Resources, explained how sustainable plantation forestry operates in an inclusive way. Over 90 percent of the labour force at its plantations are locals. Jobs go to people from outside the area only when the necessary skills are not available nearby. Green Resources is financed by Finnfund.

The company's plantation forest projects put heavy emphasis on social responsibility. In Uganda, for example, this has meant building a local health centre with maternity and children's wards. Of the plings produced at its plantations, 10 percent are given to local communities.

Green Resources operates in accordance with Ugandan environmental regulations but also observes the international certification standards of the Forest Stewardship Council (FSC). The plantations grow local species of tree. It times its harvesting and planting so that the volume of wood produced does not fluctuate too much.

The company's profits come from sales of renewable energy and timber, as well as income from carbon offsets, reductions in greenhouse gas emissions. Nsamba says that its worst competitors are the domestic and foreign producers that take a much less serious attitude to production sustainability standards.

"Solar energy is the most elegant way of producing electricity"

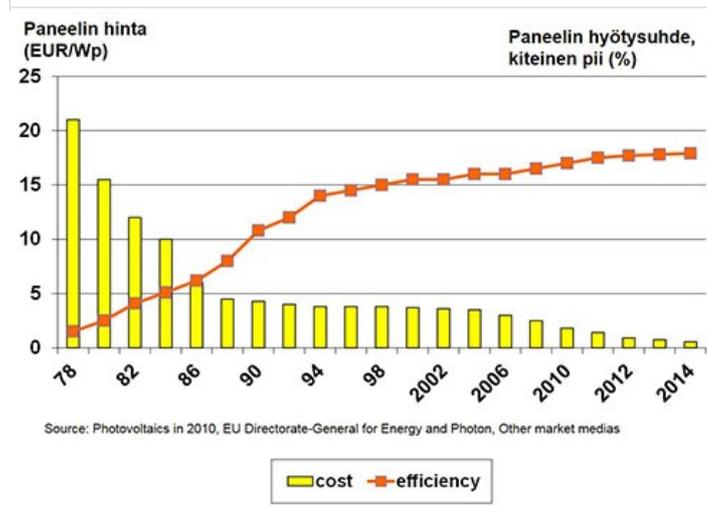
The amount of solar energy that falls on the earth in three days is equivalent to the entire global reserves of fossil fuels. In theory the present energy consumption of humanity could be satisfied by power from the sun if modern solar cells covered about only about 10,000th of the surface of the globe.

Markki Leppänen, marketing director for ABB solar inverters, told the seminar that "solar energy is the most elegant way of producing electricity". Photovoltaic panels used to account for most of the cost of solar power plants. Now their cost has fallen sharply in the last few years, and the prospects for solar energy are staggering.

In many markets, solar electricity already costs the same or less than power produced for the grid by other methods. In future, most of the cost will not come from the solar panels but from other parts of the system, like mounting brackets, monitoring systems and equipment, inverters to convert their direct current to alternating current, and related services.

This trend is creating demand for advanced Finnish technical skills, such as ABB has at its offices in Helsinki, Vaasa and Porvoo. Technological development is also making it more viable for developing countries to build small local solar power stations, often in areas beyond major power distribution grids. These will help bring electricity to new areas and new segments of the population," Leppänen said.

COST/EFFICIENCY DEVELOPMENT OF SOLAR ELECTRICITY



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FINNFUND INVESTMENTS IN RENEWABLE ENERGY IN AFRICA REDUCE ANNUAL GREENHOUSE GAS EMISSIONS BY THE AMOUNT EMITTED BY 300 000 CARS”

What makes investments in the forest sector and renewable energy so important is their great development and environmental impacts. Finland has know-how in these sectors. On the other hand, there are difficult questions of environmental and social responsibility related to land use and local communities. A finance institution needs to apply great skills and effort.

Anna Skelly, Finnfund Director for Forestry, Environment and Renewable Energy, said that about half Finnfund’s investments have been made in companies that exploit the forest sector and renewable energy sources. There is a great need for players like Finnfund.

Natural conditions in Africa are often excellent for renewable energy. For example, the turbines at Lake Turkana wind park in Kenya, financed by Finnfund, are capable, on a good day, of producing almost twice as much electricity as they would in Europe.

However, political risks and the lack of local experience mean that projects often advance slowly. Loan finance is available from larger development finance institutions like the IFC of the World Bank group, the European Investment Bank or the African Development Bank but, partly because of political risks, there is a shortage of share capital and the sector is poorly understood. By offering these, Finnfund produces significant added value for its customer companies.

Renewable energy projects have major positive environmental impacts. Three Finnfund projects based in Africa reduce carbon dioxide emissions by an annual total of over 1 million tonnes, which is equivalent to the emissions of some 300 000 cars. The projects are also ideally suited to the plans of local governments for cutting the cost of fuel imports by increasing indigenous power production.

In forestry projects Finnfund can offer finance that is often difficult to obtain locally. At the same time it supports investee companies in developing their responsibility regarding ecological, economic and social matters. Plans drawn up for plantation forest projects take into account the special features of the region, such as natural values, watercourses, logistical conditions and erosion risks. The plantation area never covers the whole land area but generally 50 – 70% of it. Valuable land, rivers and lakes are left aside and protected.

Investee companies are required to draw up a social responsibility programme that addresses the needs of local communities, other uses of the forest, fire risks and so on.

And purchase for projects financed by Finnfund is not just a matter of exchanging letters with officials but is done in close cooperation with local communities. The process is often slow and

complex but it is extremely important from the perspectives of social responsibility, development impacts and project sustainability,” Skelly says.



Aerial photo shows the difference between KVTC's protected forest and the surrounding area.

MORE RESOURCES WILL BE NEEDED FOR FINANCING CORPORATE PROJECTS

Finnfund's fundamental mission is to improve ordinary human lives in developing countries as efficiently as possible," said **Aila Paloniemi**, chair of Finnfund's Supervisory Board, in her summary of the seminar.

Investments need to be profitable so that money is not merely spent but also circulates and makes other projects possible. In order for Finnfund's contribution to have genuine value added, it needs to concentrate on things that would otherwise be done badly or not at all.

In recent years Finnfund has increasingly concentrated on sustainable forestry and renewable energy. Especially in Africa, everyone talks about the forest but few people do anything. A player like Finnfund is seriously needed. If there is to be any hope for the remaining natural forests, substantial investments are needed in plantation forests that produce wood efficiently. Some may call them tree farms, but Africa needs intensive forestry. Otherwise the forests that have the greatest natural value will not be protected.

In renewable energy, Finnfund has concentrated on hydropower, bioenergy, wind power and most recently solar energy. In the grey of a Finnish November it is hard to believe that Finns are world-class players in solar energy but this is a wonderland of engineers. We train a larger proportion of our students to be engineers than apparently anyone else in the world. At the same time we create great reserves of skill and technology, which can be used by developing countries to improve the quality of life and the state of the environment.

"Finland is going through difficult times and we have to ask ourselves what we can afford to do," Paloniemi noted.

"In a situation like this, development cooperation needs efficiency and results to be credible. With this seminar I believe even more strongly than before that financing private sector projects is a productive part of development cooperation that should be given greater emphasis in future."

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