Tampere University of Applied Sciences

Impact Investing and Private Investors in Finland

Istolainen Teemu

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ABSTRACT

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ISTOLAINEN, TEEMU:
Impact Investing and Private Investors in Finland

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Impact investing is a growing trend in the field of finance. In impact investing, private capital is used to address environmental and social challenges to create a positive impact.

The objective of this research was to study the impact investment market in Finland, focusing on the point-of-view of Finnish private investors and households. This study was carried out as a qualitative literature review utilizing comparative research as a method to compare the Finnish impact investment market to other markets.

The results suggest that there are limited opportunities for Finnish private investors and households to invest in terms of impact investing. Further research is required to study the opinions of Finnish private investors and households about impact investing to create a sustainable and profitable impact investment market in Finland.

To achieve this, a close collaboration between the Finnish impact investing organizations and the Finnish Government is needed. Spreading knowledge about impact investing and clarifying the terminology is crucial to avoid misconceptions among the public.

Impact washing is also a real issue that must be taken into consideration. To mitigate the risk of impact washing, a common national policy for all impact investments should be established. The policy should include transparent strategy, result, and impact measurement among all impact investments in Finland.

Key words: impact investing, sustainable development goals, social impact bond, private investor

CONTENTS

1 INTRODUCTION

Impact investing, quite a novel term in the field of finance, was coined just in 2007 by the Rockefeller Foundation during their retreats in northern Italy. The goal of those retreats was to bring different investment practices together to tackle issues commonly addressed by philanthropy. Now, almost 15 years later, one of the key challenges that still remains is uniting the various financial foundations and institutions, since philanthropy and finance are often seen as opposites. (Wood, 2020.)

The impact investment market has grown exponentially in the last few years, yet academic research has fallen behind (Agrawal & Hockerts, 2021, 1). The umbrella organization developing impact investing is The Global Impact Investing Network (GIIN). According to GIIN, the market size of impact investing is estimated to be around 715 billion USD in assets under management. In the Annual Impact Investor Survey 2020, 69% of the respondents view the impact investment market as “growing steadily” and 21% consider the market is “about to take off”. (Global Impact Investing Network, 2020, 14.)

There are various different definitions of impact investing, the Ministry of Economic Affairs and Employment of Finland defines impact investments as follows:

> Impact investment optimizes risk, return and impact to benefit people and the planet. It does so by setting specific social and environmental objectives alongside financial ones, and measuring their achievement. (Ministry of Economic Affairs and Employment of Finland, 2020a.)

According to S-Pankki (S-Pankki, n.d), there are three common factors to all impact investments:

1. The investment is targeted at operations intended to create social or environmental benefit.
2. The investment has pre-set and measurable impact objectives.
3. The investment has a return objective.

1.1 Background

Megatrends are variable global forces which define the future of our planet. As they continue to influence societies, the means to tackle issues must be adaptive. One of the most worrying megatrends is the ongoing climate change and its severe consequences to the world. Simultaneously, economic growth is sought after. The narratives for change series published by the European Environment Agency addresses these megatrends and explores ideas to achieve “Growth without economic growth”. Currently, the consumption and contribution to environmental decay is greater in Europe than in other regions, and it does not seem likely Europe will reach its environmental policy objectives in the initiatives 2030 and 2050. (European Environment Agency, 2021.)

Even though Finland is doing better than most European countries when it comes to exceeding planetary boundaries, there is still room for improvement. According to the Finnish Environment Institute Syke, Finland exceeds all the boundaries except the use of fresh water (Figure 1). On the other hand, Finland has achieved all the social goals in every sector except unemployment as shown in Figure 1. One could ask, are the social goals achieved to the detriment of the planet?

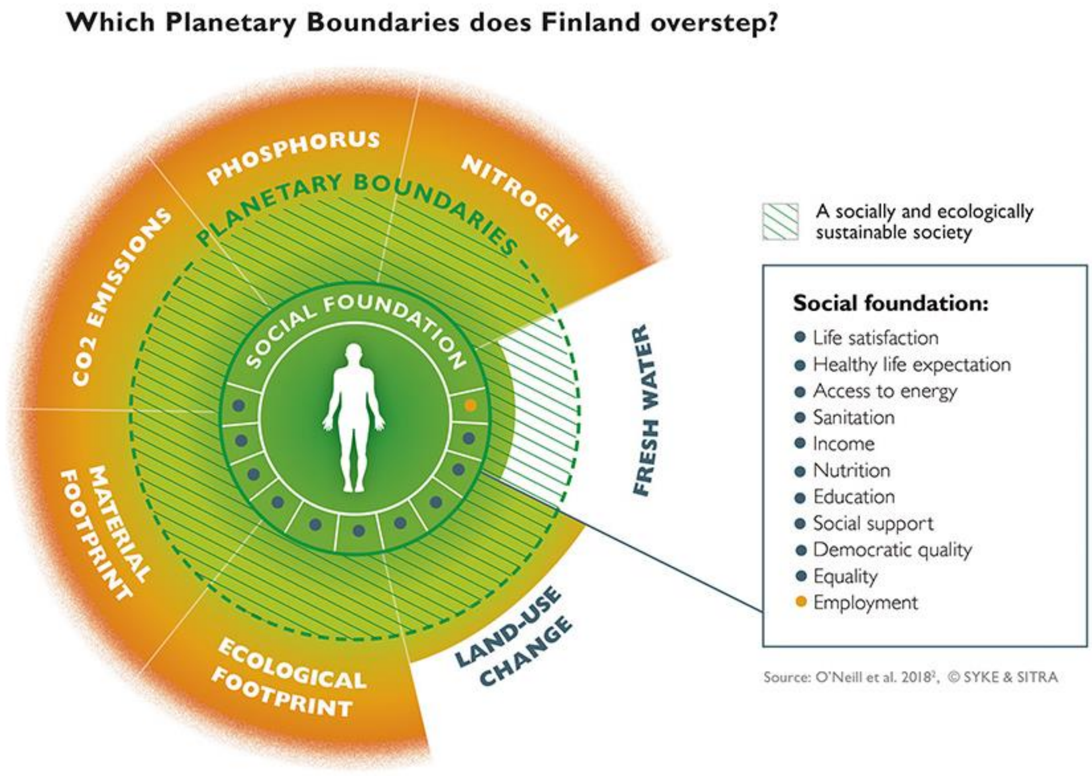

FIGURE 1. Which Planetary Boundaries does Finland overstep? (O'Neill, et al., 2018, as cited in SYKE, 2018)

The idea for this thesis formed when I was pondering different ways to make a positive impact on the world. I believe that impact investing could be one great method for creating a better world and spreading knowledge about it would be important. The novelty of the subject and the scarcity of academic research in Finland motivated me particularly since impact investing has not been studied from the point-of-view of a non-professional private investor.

1.2 Objective of the thesis

The main objective of this thesis is to map out the status and the future possibilities of impact investing for Finnish private investors and households. The author of the thesis is a part of this sector, hence the demarcation. The main research question is:

- How could impact investment market in Finland improve for Finnish private investors and households?

The sub-questions are formed followingly:

- What kind of impact investments opportunities are available for Finnish private investors?
- What practices of impact investing could be applied in Finland?

1.3 Structure of the thesis

After this introductory chapter, the second chapter focuses on the theoretical framework of the research. Key concepts and theories are introduced in the second chapter alongside a brief introduction to investing in general. A visualized theoretical framework is provided for ease of understanding.

The third and the fourth chapter contain the actual research part of the thesis. In this part, the research data is acquired via literature review. The third chapter focuses on impact investing abroad, whereas in the fourth chapter, the focus is on impact investing in Finland. The conclusions and recommendations are reported in the fifth chapter. Qualitative and comparative research methods are utilized to make justifiable interpretations of the data in question.

1.4 Research methods

The research methods utilized in the thesis are comparative research and qualitative research. These methods were selected by the author to gain an understanding of the phenomenon in question. Prior studies will be analyzed via a literature review to present an overview of the subject.

In qualitative research, the focus is on interpreting and comparing non-numerical data to gain an understanding of the topic. The qualitative research method usually gives answers to questions such as: What, why, when, and where? (Basias & Pollalis, 2018.) According to Lincoln and Guba, qualitative research approach is more natural, as the researcher has to interpret the data and draw final conclusions based on his/her observations (Lincoln & Guba, 1985). In this thesis, qualitative research is applied due to its flexible and exploratory nature.

Comparative research aims to compare phenomena in different environments to point out regional, national, or areal correlation and variation. Comparing things is considered to be a natural way of thinking, we use comparisons all the time in our daily life (Kekkonen, 2008, 32). In this thesis, comparative research is conducted to compare the Finnish impact investment market to other markets in order to find differences and similarities in practices.

A literature review will be conducted to outline the thesis topic as a whole. It is useful for understanding how much previous academic research has been conducted with different perspectives and methods. There are three main types of literature reviews, narrative literature review, systematic review, and meta-analysis. Narrative literature review is the most suitable for this research since it is characterized to provide a broad overview of the topic without strict limitations. (Salminen, 2011, 6.)

1.5 Key concepts

Impact investing is quite a new term in the field of investing, therefore many new terms and concepts have been innovated recently to help further explain the phenomena associated with impact investing. Below some of the most important concepts.

ESG stands for Environmental, Social and Governance. It refers to three factors for measuring sustainability and impact of an investment in a company. In a business context, ESG can be understood as sustainability and how a company and its products and services contribute to sustainable development. (Nordea, 2021a.)

Socially Responsible Investing, or **SRI**, is an investment strategy which aims for both financial returns and social good. Socially responsible investments consider the investor's moral values in decision-making. The criteria can also be used to screen-out possible investments. (O'Shea & Benson, 2021.)

SDG or Sustainable Development Goals are seventeen goals set by the United Nations Member States in 2015 in the 2030 Agenda for Sustainable Development. Ending poverty, protecting the environment on land and sea are some of the goals. The main purpose for the goals is to strengthen universal peace and prosperity by 2030. (United Nations Development Programme n.d.)

In a Social Impact Bond (**SIB**), funds collected from private investors are used to make positive social impact on an issue identified by the public sector. Detailed outcome targets are set for the impact bond, and the impact is measured by an unbiased third-party. The public sector will pay for predetermined outcomes, but the investors bear the financial risk. **EIB**s, or Environmental Impact Bonds are similar in practice, while the focus is on environmental projects. (Ministry of Economic Affairs and Employment of Finland, 2020a.)

EU taxonomy is a classification system which establishes a list of environmentally sustainable economic activities. It is a tool which helps investors, companies, project issuers and promoters to maneuver in the green transition towards carbon free and resource-efficient economy. The taxonomy was created in attempt to meet the EU's climate and energy targets for 2030. (European Commission, 2020.)

Community Development Financial Institutions or **CDFI**s help communities that have been traditionally left out of banking and investment markets. CDFIs serve low-to-middle income individuals in underserved communities to help end the racial wealth gap. (Forbes, 2020.)

Operating Principles for Impact Management or **OPIM**, consist of 9 principles agreed by 144 impact investors in 35 countries. OPIM is a framework for the design and implementation of impact management systems. The Impact Principles are scalable and suitable for all impact investors, regardless of asset types, sectors, and geographies. (Operating Principles for Impact Management, n.d.)

2 THEORETICAL FRAMEWORK

2.1 A brief introduction to investing

Investing can be shortly defined as allocation of money with the expectation of profit in the future. The usual conception of investing is an image of men in three-piece suits buying and selling shares in a stock market illuminated by flashing green and red lights. In reality, investing is quite mundane and common, according to a 2021 survey conducted by Nordea Finland, nearly 80% of Finnish adults save or invest money and even 88% of 25–30-year-olds in Finland save or invest money. (Nordea, 2021b.)

One of the key concepts in investing is compound interest. Simply put, compound interest is interest that you earn on interest. The longer the investment horizon, the more benefit from compound interest. Usually, the financial return gained from owning stocks consists of increase in value of the stock, dividend paid out by the stock, or a combination of both. (Investopedia, 2021a.)

2.2 Forms of investments

There are as many ways to invest as there are investors. Most common types of investments are stocks and bonds. Stocks, also known as shares, are ownership stakes of a company. The value of a stock is determined by the stock market where they are publicly traded in, simplified; the stock's value is what someone is prepared to pay for it. Factors such as P/E ratio, EPS, ROI, and much more influence the value of the stock. Still, in stock trading, the main principle applied is the law of supply and demand.

Around 30% of Finnish population invests in mutual funds and the combined capital of Finnish mutual funds in 2020 was around 146 billion euros, 62 of which was owned by households (Finance Finland, 2021). The popularity of mutual funds stems from easy diversification of capital, even with relatively small investments. A mutual fund usually consists of stocks and/or bonds. Bonds are one of the most traditional and oldest forms of financial instruments. A bond represents a loan in which the borrower pays variable or fixed interest payments to the lender. (Pörssisäätiö, 2020.)

2.3 Visualized theoretical framework

The visualized theoretical framework helps the reader to understand all the factors involved in impact investing. The factors seen in Figure 2 (adapted from Rivera Acevedo & Wu, 2018, 90) are cornerstones of the impact investing market.

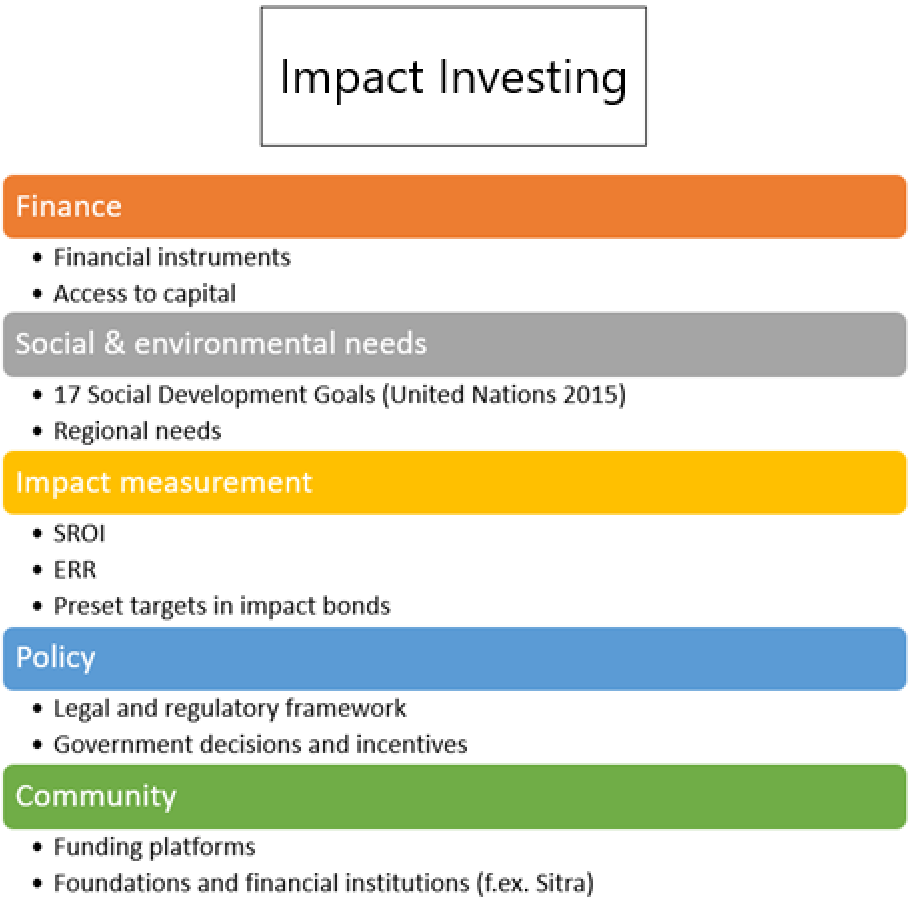

FIGURE 2. Theoretical framework visualized (Adapted from Rivera Acevedo & Wu, 2018, 90)

2.4 Investment decision making

Investor behavior has been widely researched since the first free market economists. Modern Portfolio Theory (MPT) for years used to be the dominant school of thought used to explain investor behavior. In 1952, an article published in The Journal of Finance, titled “Portfolio Selection” contained the foundation for Modern Portfolio Theory, received little to no attention during that time. Now, almost 70 years later, MPT is the basis of what is known of investment decision making. (Fabozzi, Gupta, Markowitz, 2002.) The developer of MPT, Harry Markowitz, argued that investors could achieve maximum returns within their desired risk level by diversifying their portfolio, choosing an optimal mix of high risk and high reward or low risk and low reward investments. (Investopedia, 2021b.)

As traditional finance assumes that people are rational, and markets are efficient, behavioral finance just assumes that people are normal (Curtis, 2004, 16). Behavioral finance is the gap-closer between psychology and economics, since people are not machines and have feelings, which is also going to affect investment decisions. In the modern world, investments do not necessarily have to generate massive returns if the investment creates positive impact.

The Behavioral Portfolio Theory (BPT) developed by Shefrin and Statman, provides an alternative theory to MPT. In BPT, different parameters are utilized including expected wealth, desire for security and potential, aspiration levels, and probabilities of achieving aspiration levels. Shefrin and Statman developed two versions of BPT; BPT-SA, a single mental account BPT-version, where an investor integrates their portfolio into a single mental account, and BPT-MA, where the investor divides their portfolio into multiple mental accounts. (Shefrin & Statman, 2000.)

2.5 Measuring impact

Impact measuring is one of the important factors in impact investing, and there are a few methods and practices to measure impact. Impact investors assess expected returns in a social context by measuring the anticipated benefits of an investment against its costs. These methods include for example, Social Return on Investment (**SROI**) and Economic Rate of Return (**ERR**). (Ivy & Staskevicius, 2015.)

2.5.1 Social Return on Investment (SROI)

SROI is a framework for measuring and accounting social value. The SROI Network describes SROI as a business plan but in a social context, explaining how change is created by measuring social, environmental, and economic outcomes and using monetary values to present them. There are two types of SROI, evaluative and forecast. An evaluative SROI analysis is conducted after the actions and based on actual outcomes to measure the social value created by the project. In contrary, a forecast SROI analysis is conducted to evaluate how much social value will be created if the intended outcome is reached. (The SROI Network, 2012, 8.)

In the simplest form, SROI can be calculated by:

$$\text{SROI ratio} = (\text{Present Value of Impact}) / (\text{Value of Inputs})$$

A great example of SROI in action is from 2019, when the Football Association of Finland conducted SROI-modeling in collaboration with the Union of European Football Associations (UEFA). The research conducted also in 27 other UEFA member countries found out that football in Finland generates 1,25 billion euros in economic benefits to Finnish society annually. The amount is composed of three segments, health, social and economic benefits. According to the research, football in Finland saves the Finnish society 349 million euros annually in health care costs. (Palloliitto, 2020.)

2.5.2 Economic Rate of Return (ERR)

Another metric used to assess expected return is the ERR. It is a cost-benefit analysis that compares economic costs to benefits of a program. ERR can be described as a micro-economic growth analysis, which calculates the expected increase in local incomes, while excluding non-income related value such as environmental and social improvements. According to Millennial Challenge Corporation, every ERR calculation considers the expected outcome with the project and the expected outcome without the project. (Millennial Challenge Corporation, n.d.)

2.6 Sustainable Development Goals

Sustainable Development Goals were set by the United Nations in order to improve peace and prosperity on Earth by 2030. Among the 17 goals agreed upon by all 193 UN member states, include for instance ending poverty, providing clean water and sanitation for all, and achieving gender equality (United Nations, n.d). The goals set in the blueprint in 2015 are no doubt difficult to achieve by 2030. The UN recognizes this and has provided specific targets for each goal and monitors the indicators closely. Each goal has 8-12 targets, and each target has 1-4 indicators used to measure the progress. For example, the goals and indicators for Goal 1 can be found in Appendix 1. All the 17 Sustainable Development Goals are listed in Figure 3.

FIGURE 3. Sustainable Development Goals (United Nations, n.d)

2.7 Regulation and government policy

Regulation and the government policy are key factors in developing impact investing. According to Wood, Thornley and Grace, co-operation between policymakers and institutional investors is essential to build an investment market that produces positive social impact. (Wood, et al., 2013, 75.)

Wood, et al. suggest three engagement strategies (Figure 4) for policymakers to engage institutional investors. Public policy has to encourage asset owners to help overcome perceptions of impact investing being a new, niche market (Wood, et al., 2013, 89). After policymakers have made efforts to make the impact investment market desirable to invest in, there is no reason why it would not expand to private investors too.

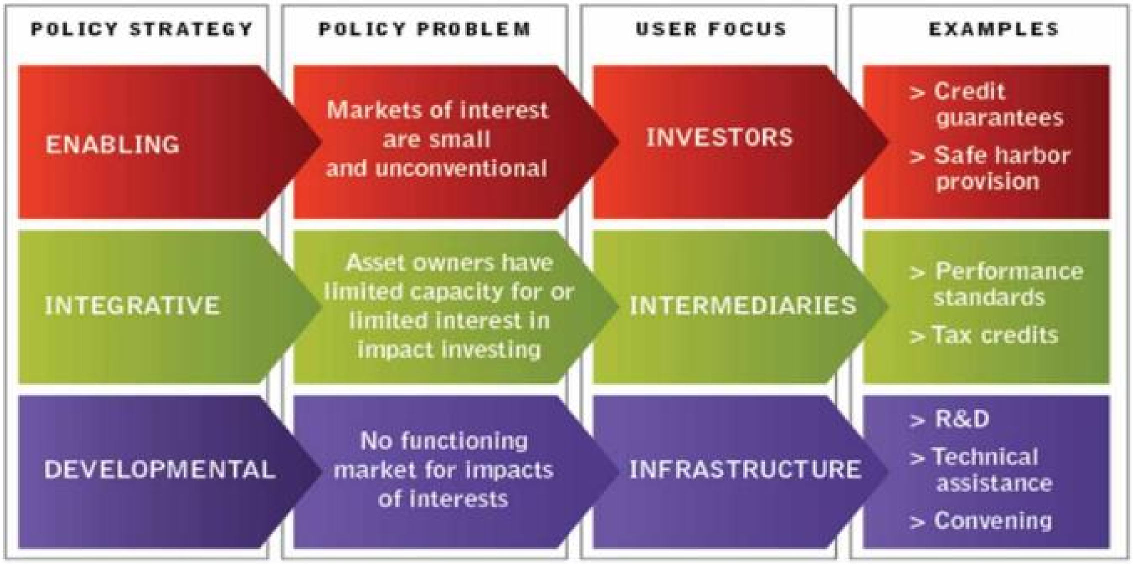

FIGURE 4. Engagement strategies for institutional investors (Wood et.al, 2013, 89)

2.7.1 Public procurement in Finland

According to the Ministry of Finance, procurements by the Finnish public sector in 2018 amounted to a total of 47 billion euros (Finnish Government, 2020), approximately 20% of Finland's GDP, which was 233,7 billion euros in 2018 (Statistics Finland, 2021). In Finland, public procurement is regulated by the Public Procurement Act 2016/1397. The National Public Procurement Strategy, published in September 2020, is an umbrella strategy aiming to generate positive impact in Finland. The strategy is one effort to meet the EU's climate and energy targets and Finland's goal of carbon-neutrality by 2030. According to Sirpa Paatero, the Minister of Local Government in Finland:

> Public procurement is at the heart of economic policy, as there are not only cost savings, impacts on wider goals in society and more jobs, but also emissions can be reduced, workers' rights violations prevented and opportunities created for innovative Finnish companies. (Ministry of Finance, 2020a.)

The strategy has been prepared by the Ministry of Finance in collaboration with the Association of Local and Regional Authorities together with municipalities, government, tenderers, and expert organizations. With an implementation plan and performance indicators attached; the strategy (Ministry of Finance, 2020b) consists of eight sectors of development:

- strategic leadership
- procurement skills
- knowledge management and impact
- functional procurements
- innovations
- economic sustainability
- social sustainability
- ecological sustainability.

3 IMPACT INVESTING

3.1 Social Impact Bond

Social Impact Bond (SIB) is a financial instrument that is based on a contract between the public and the private sector. SIBs are agreements in which investors finance the implementation of services to tackle an issue identified by a community or the government. After the implementation of services, an unbiased evaluator assesses the project and determines if the program has met the pre-set goal. If the pre-set goal is achieved, the outcomes payer or the government pays the investor an agreed interest. In Figure 5, the SIB model is explained elaborately.

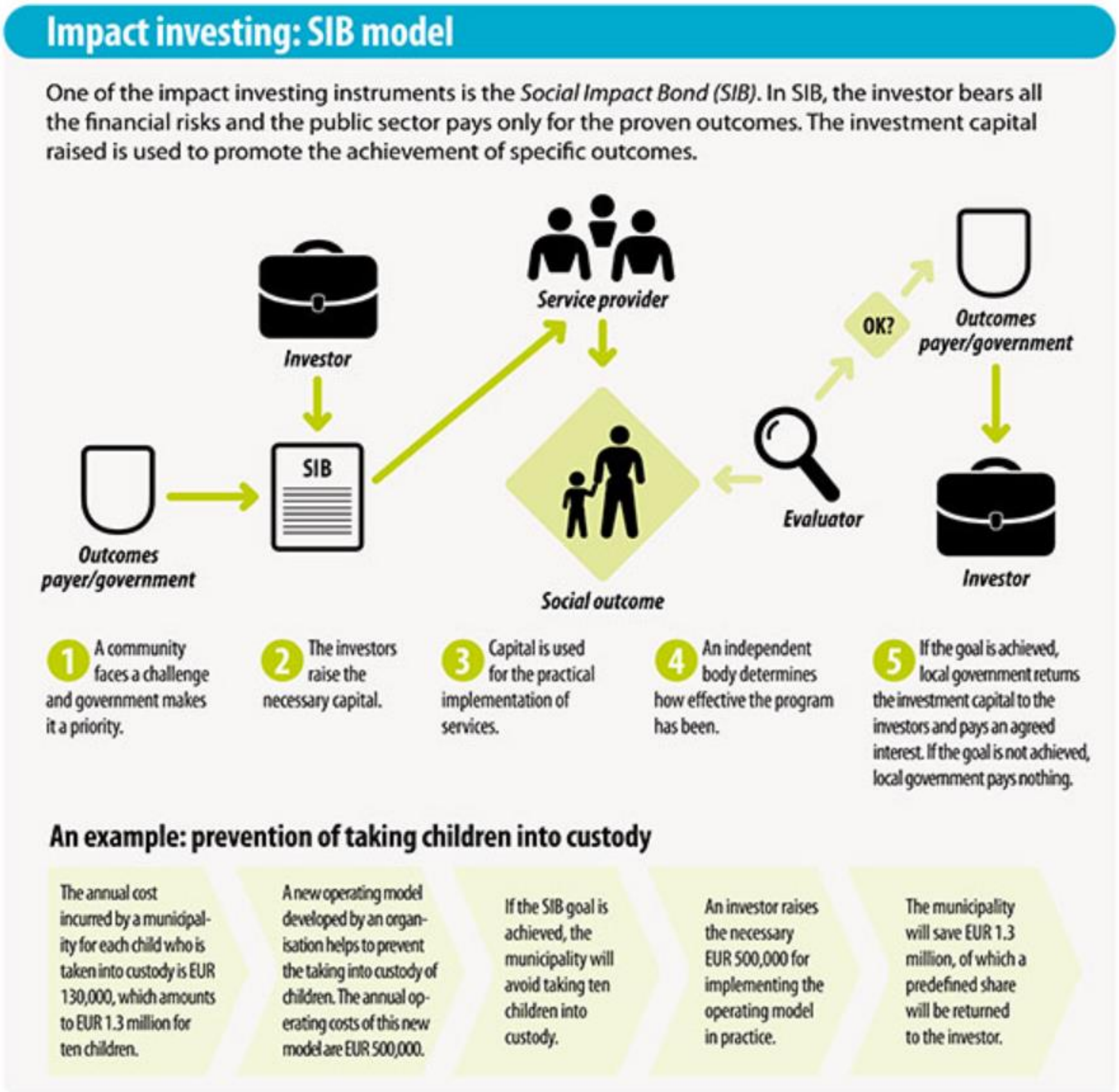

FIGURE 5. SIB model stages (Sitra, 2015a)

Sitra recognizes there are four types of stakeholders in an SIB-agreement, the investors, project administrator, service provider or providers and municipalities and/or the government. The initial investment is paid to the project administrator, which provides capital for the service providers. The public sector, often composed of municipalities pays out a performance-based bonus to the project administrator, which is then forwarded to the investors as seen in Figure 6.

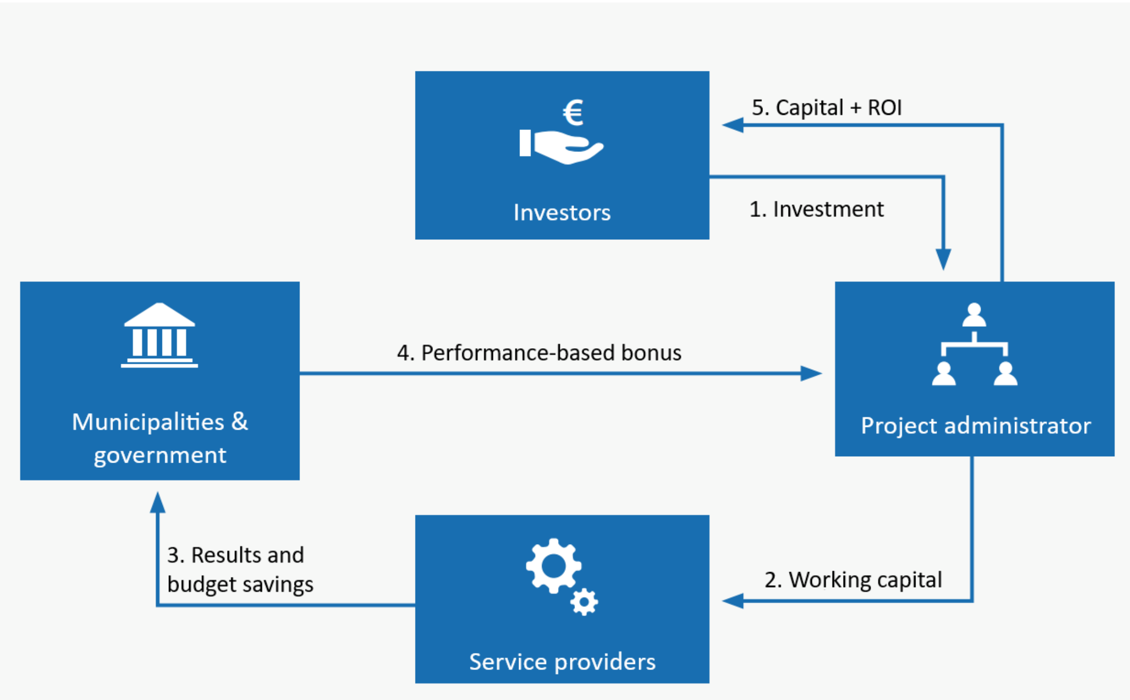

FIGURE 6. Contracting parties in a SIB-agreement (Sitra, 2015b, 6, modified)

3.2 Impact investing in The United States

The United States is one of the forerunners in developing impact investing and one could argue that the field of social investing originally developed through community investing in the United States. The Community Reinvestment Act enacted in 1977, played a substantial role in shaping the CDFI industry (Wilson, 2014, 24). The federal law required regulators to assess how each bank fulfilled its obligations to communities in low- and moderate-income neighborhoods and encouraged the depositories to meet their credit needs (Investopedia, 2020).

Alongside few of the major foundations developing impact investing for instance the Rockefeller Foundation, many recent innovations originate from the US. OpenInvest is a values-based fintech company that helps financial advisers to manage and report ESG portfolios and provide customers with tangible impact reports. Their Portfolio Diagnosis Tool (Appendix 2) quantifies and visualizes the impact of the investments, which helps investors to understand the social impact of their portfolio. OpenInvest tailors portfolios to match customers values. The causes available to choose from are for example, supporting LGBTQIA+ rights, investing in ethical supply chains and divesting from gambling. (OpenInvest, 2020.)

CNote is an impact investment platform, in which institutions and individuals can invest in the economic prosperity of financially underserved communities in the USA. CNote uses technology to evaluate and select top-performing Community Development Financial Institutes (CDFIs) and Low-Income-Designated Credit Unions to generate return, impact, risk. and diversification for investors.
Their Flagship Fund promises a 2.00% annual return on investments, while directing 100% of funds to CDFIs who provide loans to underserved communities across the USA. (CNote n.d.)

Aspiration is a green financial services business offering various sustainability and impact measurement services to its business customers. For its private customers they have various offerings – banking services, investment funds, retirement services and a credit card. Aspiration’s credit card is fighting climate change with carbon offsetting, every time a customer makes a purchase, Aspiration plants a tree. Their app also allows customers to track their carbon footprint and rewards them with 1% cash back for every month they reach carbon zero. Aspiration allows customers to “Pay what is Fair” for their namesake credit card. With Aspiration Plus, their $5.99/month premium credit card, carbon offsets also apply to gas purchases. (TechCrunch, 2021.)

3.3 Impact investing in The United Kingdom

The world's leading country in impact investing, the United Kingdom (UK) is also the home of the first Social Impact Bond, launched in September 2010. The HMP Peterborough Social Impact Bond was established to reduce the reconviction rate of short-sentence male prisoners released from the HM Prison Peterborough. The Ministry of Justice and the Big Lottery Fund agreed to pay a bonus if the reconviction rate reduced by 7,5%, and an early payment would trigger if it would reach 10%. (Disley, Giacomantonio, Kruithof & Sim, 2015, 1.) According to the final cohort impact evaluation published by Anders and Dorsett, the rate of reconviction was reduced by 9,02%, which was sufficient to trigger the successful outcome payment to investors. (Anders & Dorsett, 2017, 16.)

Impact investing in the UK is being constantly developed by many institutes and organizations. The most influential of them is the Social Investment Taskforce (SITF), currently known as the Social Impact Investment Taskforce (SIITF). The original taskforce SITF was established in 2000, with Sir Ronald Cohen appointed as chairman, ran the development of social investing in the UK during the years 2000–2010 (Social Investment Task Force, 2010, 4–5). Impact Investing Institute, established in 2019, is one of the independent UK-based developers of impact investing. Their goal is to accelerate the growth of the impact investment market in the UK and internationally. Funded by the government, Impact Investing Institute focuses on spreading awareness, providing tools, conducting research, enabling policies and regulations, and measuring, managing, and reporting results to enable impact investment market to flourish. (Impact Investing Institute, 2021.)

Big Society Capital is an independent social impact investment institution dedicated to tackle issues in the UK. It finances all kinds of projects aiming to generate positive environmental and/or social impact. The institution invests in a range of projects; from providing afforable housing to supporting local communities by social lending. (Big Society Capital, n.d.)

In recent years, a few impact investment platforms have emerged the UK. Perhaps two of the best known are Clim8 Invest and The Big Exchange. Both of the platforms offer users an in-app opportunity to invest in public-listed companies making a positive impact on the world. Investments opportunities in Clim8 Invest's app cover six themes: clean energy, clean technology, clean water, circular economy, smart mobility and sustainable food. The investor's portfolio is builded according to selected themes, consisting of a combination of funds and stocks (Clim8 Invest, n.d). The Big Exchange only offers funds that include companies making a positive impact on the world. The funds are curated and graded according to the SDGs. (Good with Money, 2021.)

A research published in October 2019, studied the public's demand for sustainable investment opportunities in the UK. The research was commissioned by The Department for International Development (DFID) as a part of their Investing in a Better World initiative. With a sample size of just over 6000, only 46% of the respondents were aware of responsible or impact investments. On the other hand, 56% of the respondents said they are interested in making sustainable investments. Also, one of the key findings is that private investors need more information about sustainable investment opportunities, only 13% of respondents said they could explain what sustainable investing is. Information about sustainable investing has clearly not reached the public in the UK, even though people want to use their money to create positive change in the world. (The Department for International Development, 2019, 6–11.)

3.4 Impact investing in Australia

Australia is one of the first countries that has set national principles for social impact investing. The principles set during 2017-2018 acknowledge and encourage communities and private capital to get involved in the developing market. All six principles (Australian Government, n.d) seen in Figure 7 strengthen the government's role as an enabler and developer of the impact investment market. One particular principle stands out, which is the fair sharing of risk and return. It is a new approach to SIB-projects, also known as Social

Benefit Bonds or SBBs in Australia. Australia is also the home of many impact investing institutes, such as Impact Investment Australia, and Social Ventures Australia. They are almost identical in their operations to their British counterparts, Impact Investing Institute, and the Big Society Capital.

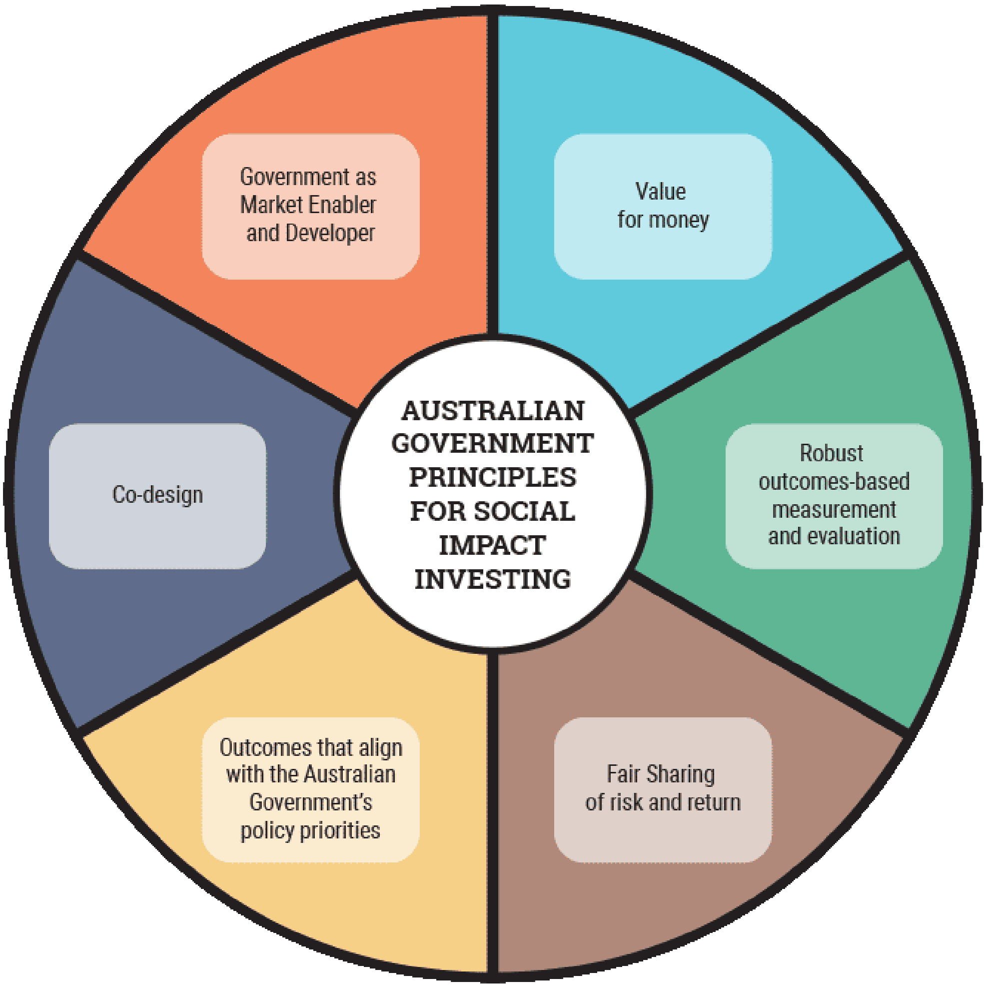

FIGURE 7. Australian Government Principles for Social Impact Investing (Australian Government, n.d.)

4 IMPACT INVESTING IN FINLAND

Impact investments truly started in Finland in 2014, with the help of the Finnish Innovation Fund Sitra, which played a key role in launching the first SIBs. The mission of Sitra was to spread awareness of impact investing and build an impact investment ecosystem in Finland. In 2019, the Ministry of Economic Affairs and Employment of Finland established the Centre of Expertise for Impact Investing which continues Sitra's work of developing of impact investing in Finland. Another organization developing impact investing in Finland is Finnfund, a Finnish development financier that invests in responsible and profitable businesses in developing countries in order to build a sustainable world. Funded by the Finnish public sector and private capital markets, it invests 250–300 million euros annually in projects creating positive environmental and social impact (Finnfund, n.d). It is also the only signatory organization of Operating Principles for Impact Management in Finland. (Operating Principles for Impact Management, 2021.)

4.1 SIBs in Finland

The first SIB launched in Finland addressed wellbeing at work. The project was implemented during 2015-2017 in four public organizations. In May 2020 the project ended in the last organization that joined the SIB. The main goal for the SIB was to improve wellbeing at work in the public sector. A sickness absence day was used as the performance indicator. Bonus returns to investors would have been paid if sickness absence days were reduced by at least 2,1 days per organization.

The SIB received criticism over the performance indicator because "sickness absence days were a poor indicator for wellbeing at work". According to Irmeli Pehkonen from the Finnish Institute of Occupational Health, wellbeing at work is affected by so many causes, so one performance indicator is not necessarily enough. The chosen performance indicator is thought to be one of the stumbling blocks of the project (Sitra, 2019). Currently, in November 2021, there are nine

SIB-projects underway, starting soon, or in-preparation in Finland. All the SIB-projects can be found in Appendix 3.

4.2 Finnish households as investors

In July 2021, Finnish households owned 21% of Finnish companies in the book-entry system administered by Euroclear Finland (Figure 8) and according to Pörssisäätiö, 929 445 Finnish individuals owned stocks on 30.9.2021 (Pörssisäätiö, 2021). A study by Keloharju and Lehtinen found out that 43% of individual investors in Finland have only one stock in their portfolio, while 16% of investors hold two. (Keloharju & Lehtinen, 2021, 16.)

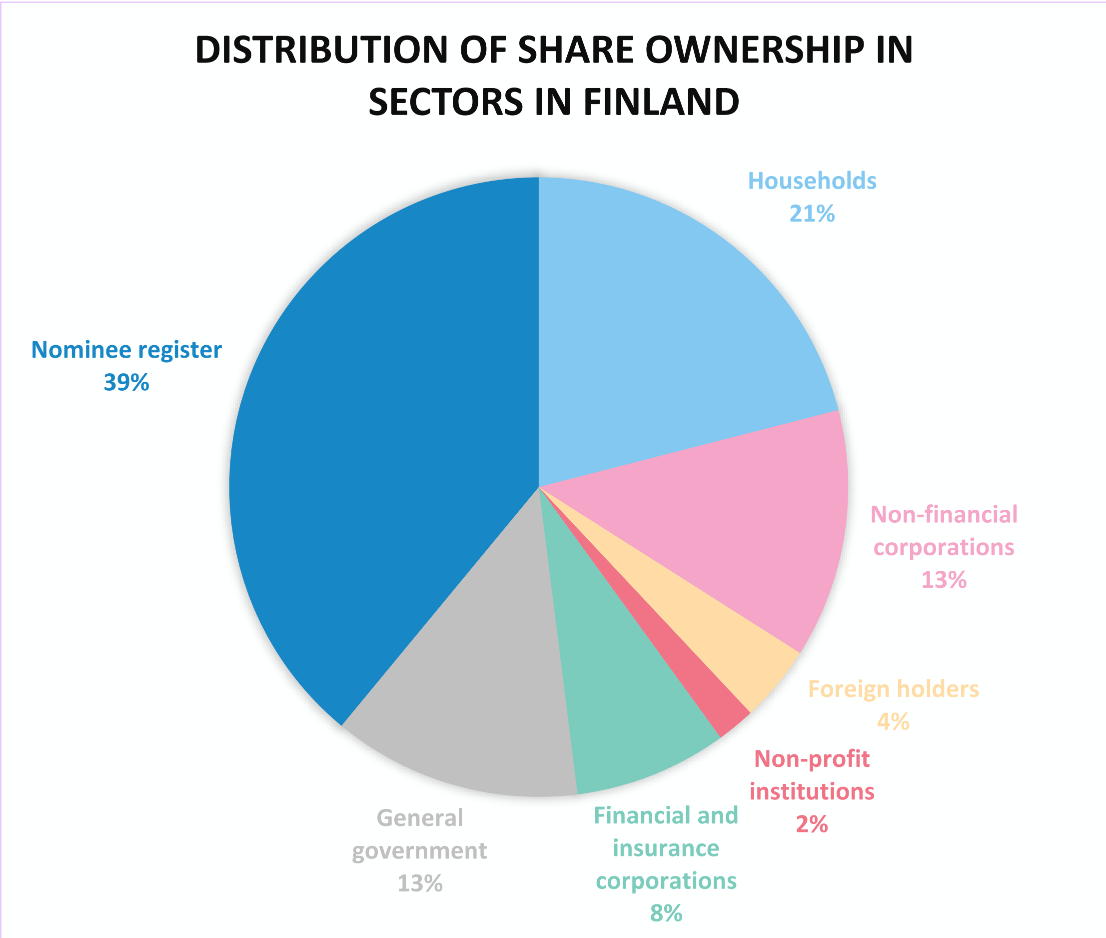

FIGURE 8. Distribution of share ownership in sectors (Euroclear Finland, 2021, modified)

Investing among Finnish private investors has become more common during the last few years according to Mandatum Life Magazine. One key factor of the increase in investing is the new equity savings account, which launched in Finland on 1.1.2020 (Mandatum Life Magazine, 2021). The new equity savings account allows investors to buy and sell stocks without having to pay tax on the individual sales, the dividends are also not taxed when they arrive at the account. The profit from an equity savings account is taxed when it is withdrawn from the account. The equity savings account has a maximum investment amount of 50 000 euros (Finnish Tax Administration, n.d). Despite the new equity savings account, Finnish private investors invest in concrete, literally. On estimate, 50% of Finnish private investors wealth is in real estate since many Finnish investors own their own house according to Mandatum Life Magazine (2021).

Finance Finland commissioned a survey about responsible investing in 2020. The survey conducted by Norstat Finland Oy surveyed 1002 Finnish private investors' feelings of responsible and impact investing. 51% of the 739 respondents were interested in keeping track of the impact alongside the financial returns generated by their investments. 47% of the 449 respondents fully or partially agreed with the claim that environmental impact of an investment is an important criterion when assessing investments to funds or endowments. The survey also found out that 53% of the 739 respondents would settle for short-term moderate financial returns, if, say in 10 years, expected rate of returns for low-emission investments would be higher. (Finance Finland, 2020.)

The majority of Finnish private investors are currently excluded from investing in SIBs, since currently the minimum investment is 50 000 euros (S-Pankki, 2021). Jani Kempas, the director of impact investments in S-Pankki said in an interview in 2019 that making a financial instrument for non-professional investors in the next few years is on his task list. (Arvopaperi, 2019.)

4.3 Impact investment opportunities in Finland

Even though SIBs are currently unavailable for the majority of private investors (Sitra, 2018), during 2021-2022, S-Pankki is launching an impact investment fund intended also for non-professional investors, S-Pankki Vaikuttavuus I Ky. The fund is structured as a commandite company, which also allows private investors to invest in it via a master-feeder structure. Simplified, a private investor invests in a fund, which then invests the capital into a master fund. In this case, the master fund invests in impact investment funds managed by S-Pankki and/or other fund managers. Unfortunately for many private investors, the minimum investment in the fund is 50 000 euros. (S-Pankki, 2021.)

Fortunately, there is some impact investment opportunities available for all Finnish private investors, one of which is the Impact Fund managed by Aktia. In the service operating at impakti.fi, the investor's portfolio is built upon their desired risk level. The instruments, Impact Fund, responsible shares, and responsible interests are allocated according to the selected risk level. The metrics used to measure the impact of the investment are carbon dioxide emission, usage of wind- and solar power and carbon footprint. Currently, in November 2021, the fund covers investments making an impact on eleven SDGs. (Aktia, 2021.)

Finnish private investors can also invest indirectly in green bonds. The companies applying for a green bond are obliged to compose reports about their green projects, funding expenditure, and also segregate the project funds from other business units (Taloustaito, 2020). The EU has proposed common standards for European green bonds (EUGBS). The voluntary standards intended for issuers and investors help issuers to demonstrate the funding of legitimately green projects following the EU taxonomy and allows investors easier access to these bonds. The goal for EUGBS is to improve transparency and sustainability of green bonds, thereby reducing the risk of impact washing. (European Commission, n.d.) According to Taloustaito (2020), in November 2020 Finnish private investors could invest in three green bonds, managed by Evli, FIM and Ålandsbanken. Minimum investments in the bonds range from 50 euros to 1000 euros.

Exchange-traded funds (ETF) are passive financial products investing in different stocks. An ETF follows an index and invests accordingly. Finnish private investors can invest in many ETFs, for example Green Bond ETFs issued by Lyxor that invests following the Solactive Green Bond EUR USD IG index. (Lyxor, 2020).

These investments can be made in Finland through financial service companies or banks such as Nordnet or Nordea.

5 CONCLUSION AND RECOMMENDATIONS

There is no simple answer for the main research question: “How could impact investment market in Finland improve for Finnish private investors and households?”, although the results of this research may help identify key challenges and future possibilities for Finnish private investors. The findings conclude that there were very few impact investment opportunities for private investors in Finland. While impact investing is being widely developed in the UK and the USA, the private investor is usually overlooked, as most financial instruments in impact investing have too big minimum initial investments for most private investors. On the other hand, impact investing is still in its early stages, new financial instruments and opportunities for private investors will most likely be established in the coming years.

The author would recommend conducting a survey to find out the public’s attitude towards impact investing in Finland, similar to the survey conducted by Finance Finland, but with a larger sample size. If there is enough interest from the public, development of new financial instruments for impact investments should begin. Collaboration between the Ministerial Working Group on Climate and Energy Policy, Ministerial Working Group on Sustainable Growth in Finland, and the Centre of Expertise for Impact Investing could make a difference in policy and regulation to make impact investing better available to private investors. As stated by Sitra in their study on impact investing (Sitra 2016, 17), inclusion of impact investments in mainstream portfolios is one crucial requirement for impact investing to be able to expand. It also involves spreading knowledge and information about impact investing.

Furthermore, impact investing needs clear definition and terminology in Finnish. It is often seen as a part of responsible investing, even though this is not the case (Manninen, 2020, 44). According to a Finnish impact investment professional interviewed in a master’s thesis by Janne Manninen, the SIBs in Finland are currently structured too complicatedly, meaning that financial instruments for impact investing need to be simplified in order to make them available for the public.

Impact washing poses a major threat to all impact investment markets. Impact washing is a term used when a company or fund claims to make a positive impact but cannot back their claims in any way (Lyn Higdon & O'Flynn, 2019). 80% of the respondents in GIIN's Annual Impact Investor Survey in 2018 believe that the risk of impact washing could be reduced by more transparency in strategies and results. 41% believe that impact washing could be mitigated by a certificate awarded to impact investments from an unbiased third-party. (GIIN, 2018, 16.)

Though the operating principles for Impact Management have been established for impact investors, Finnfund is currently the only signatory from Finland.
The Finnish Government could strengthen its role as a market enabler and developer by setting common standards to impact investing in Finland. The government sharing financial risk with investors and service providers could make the impact investment market in Finland more attractive to investors. National framework and principles for impact investing could be established by, for example, the Centre of Expertise for Impact Investing to clarify what factors are taken into consideration with impact investments in Finland. An independent operator developing and promoting impact investing could contribute positively to the Finnish impact investment market. Impact investing products could also be established to address national issues in Finland, like Big Society Capital does in the UK. Impact investing could be one of the key methods for reaching a climate-neutral Finland by 2035.

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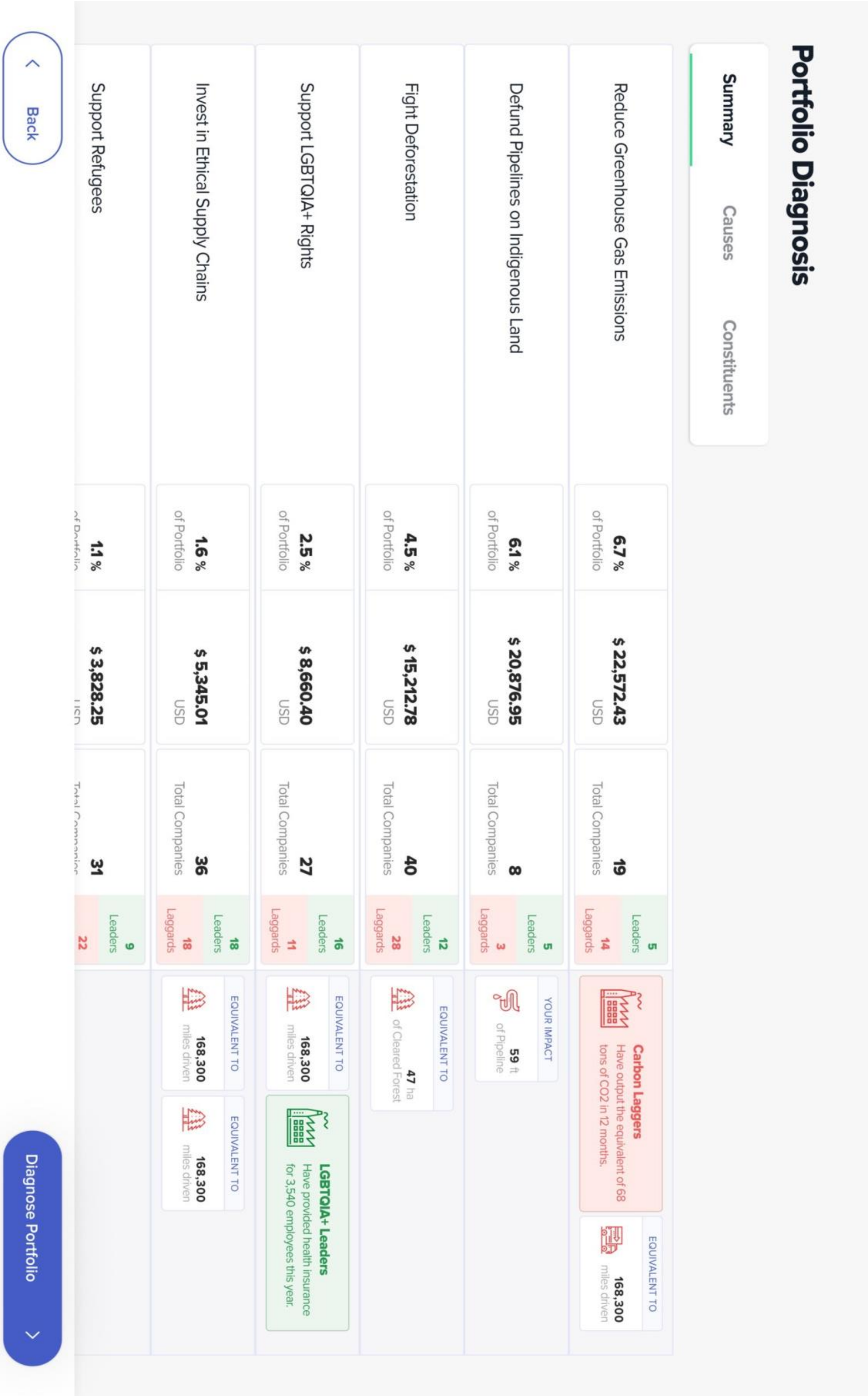
APPENDICES

Appendix 1. List of all Social Impact Bonds in Finland
(Ministry of Economic Affairs and Employment, 2020b.)

Projects	Commissioner	Stage
Promoting wellbeing at work in the public sector (TyHy SIB)	Public sector organizations as employers	Implemented during 2015- 2017 Ended late 2020.
Fast employment and integration of immigrants (Koto SIB)	Ministry of Economic Affairs and Employment	Implemented 2017-2019, follow-up period 2020-2022
Promoting employment (Employment SIB)	Ministry of Economic Affairs and Employment	Ongoing, 2020-2024 (option 2025)
Wellbeing of children, young people and families (Children SIB)	Municipalities	Ongoing, 2018-2031 (varies by municipality)
Wellbeing of children, young people and families (Children SIB II)	Cities and Municipalities	Ongoing, 2020-2031 (varies by municipality)
Life-long functional capacity through proactive measures (Elderly SIB)	Municipalities and joint municipal authorities in South Savo and Ostrobothnia	In preparation
Preventing type 2 diabetes (T2D SIB)	Municipalities	In preparation

Recycling of agricultural nutrients (Nutrition EIB)	Ministry of Agriculture and Forestry and the ELY Centre for Southwest Finland	In preparation
Energy efficiency in housing (Housing EIB)	Ministry of the Environment	In preparation
Preventing and reducing long-term homelessness		Modelling of societal benefit is underway
Get along of self-employed persons and micro entrepreneurs		Modelling of societal benefit is underway

Appendix 2. Portfolio Diagnosis Tool



Screen capture of Portfolio Diagnosis Tool (OpenInvest 2020.)

Appendix 2. Goals and indicators for SDG 1

Goals and targets (from the 2030 Agenda for Sustainable Development)	*Indicators*
Goal 1. End poverty in all its forms everywhere	
1.1 By 2030, eradicate extreme poverty for all people everywhere, currently measured as people living on less than $1.25 a day	1.1.1 Proportion of population below the international poverty line, by sex, age, employment status and geographical location (urban/rural)
1.2 By 2030, reduce at least by half the proportion of men, women and children of all ages living in poverty in all its dimensions according to national definitions	1.2.1 Proportion of population living below the national poverty line, by sex and age
	1.2.2 Proportion of men, women and children of all ages living in poverty in all its dimensions according to national definitions
1.3 Implement nationally appropriate social protection systems and measures for all, including floors, and by 2030 achieve substantial coverage of the poor and the vulnerable	1.3.1 Proportion of population covered by social protection floors/systems, by sex, distinguishing children, unemployed persons, older persons, persons with disabilities, pregnant women, newborns, work-injury victims and the poor and the vulnerable
1.4 By 2030, ensure that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources, as well as access to basic services, ownership and control over land and other forms of property, inheritance, natural resources, appropriate new technology and financial services, including microfinance	1.4.1 Proportion of population living in households with access to basic services
	1.4.2 Proportion of total adult population with secure tenure rights to land, with legally recognized documentation and who perceive their rights to land as secure, by sex and by type of tenure
1.5 By 2030, build the resilience of the poor and those in vulnerable situations and reduce their exposure and vulnerability to climate-related extreme events and other economic, social and environmental shocks and disasters	1.5.1 Number of deaths, missing persons and directly affected persons attributed to disasters per 100,000 population
	1.5.2 Direct economic loss attributed to disasters in relation to global gross domestic product (GDP)
	1.5.3 Number of countries that adopt and implement national disaster risk reduction strategies in line with the Sendai Framework for Disaster Risk Reduction 2015–2030
	1.5.4 Proportion of local governments that adopt and implement local disaster risk reduction strategies in line with national disaster risk reduction strategies
1.a Ensure significant mobilization of resources from a variety of sources, including through enhanced development cooperation, in order to provide adequate and predictable means for developing countries, in particular least developed countries, to implement programmes and policies to end poverty in all its dimensions	1.a.1 Proportion of domestically generated resources allocated by the government directly to poverty reduction programmes
	1.a.2 Proportion of total government spending on essential services (education, health and social protection)
	1.a.3 Sum of total grants and non-debt-creating inflows directly allocated to poverty reduction programmes as a proportion of GDP
1.b Create sound policy frameworks at the national, regional and international levels, based on pro-poor and gender-sensitive development strategies, to support accelerated investment in poverty eradication actions	1.b.1 Proportion of government recurrent and capital spending to sectors that disproportionately benefit women, the poor and vulnerable groups

(United Nations, 2017, 4-5)