

SUSTAINABLE INVESTMENTS FOR REDUCED POVERTY IN AN UNCERTAIN WORLD

The consequences of the pandemic also left their mark on 2021 with increased poverty, rising inflation and uncertainty about how quickly a sustainable recovery can be achieved given the uneven distribution of vaccines. The Russian invasion of Ukraine on 24 February has caused great suffering for the Ukrainian population, affected the security situation and increased uncertainty about the future. We are monitoring the development and note that our mission to reduce poverty through sustainable investments remains highly relevant.



In January 2022, the World Bank estimated that the advanced economies will generally recover this year, with investment levels similar to those before the pandemic. On the other hand, no corresponding development is apparent in regions such as Africa or certain parts of Asia. The report warns of increasing poverty and inequality linked to the fact that the countries have not had access to vaccines, and have thus had lower vaccination rates at a time when there is a risk of new and more infectious variants of the virus spreading. The macro-economic imbalance between countries has reached historical proportions as a result of the pandemic, which in turn has led to substantial budget deficits and substantial increases in levels of indebtedness.

Rising inflation is further exacerbating the situation, leading to a risk of interest rates being increased, which would particularly affect debt-laden countries and reduce the budgetary scope to implement measures to support companies or individuals affected by the pandemic. Many people have lost their job or seen a cut in their income, and already vulnerable groups like young adults and women have been hit particularly hard.

It is too early to assess the long-term impact of the Russian invasion of Ukraine on Swedfund's portfolio and the countries where we operate. Swedfund does not have any investments in Russia. When it comes to the Energy & Climate sector we have two investments in Ukraine, which totally represent 1.6 percent of Swedfund's portfolio value. In 2019, Swedfund together with Scatec, the EBRD and NEFCO contracted a loan to finance the construction and operation of a solar power park in central Ukraine. While Ukraine is heavily dependent on fossil fuels and nuclear power for its energy production,

the country has a strategy to increase renewable energy capacity, which at the time of investment accounted for a limited share of the country's total energy production. The target was for Chigrin to generate renewable energy equivalent to the average consumption of 28,000 households and to contribute to a reduction in carbon emissions equivalent to 36,000 tonnes. Under the ICCF, a facility where European development finance institutions co-finance energy investments, Swedfund has also financed a small part of a syndicated loan led by our French counterpart, Proparco. The loan has financed the construction of the Syvash wind farm in Ukraine.

I note that short- and long-term uncertainty has increased for the global economy and for countries in sub-Saharan Africa where 60 percent of Swedfund's portfolio is located. It is however too early to predict the long-term consequences for Swedfund's operations and portfolio. We continue to monitor the development and note that our mission to invest in vulnerable and risky environments remains highly relevant. The World Bank believes that a joint approach is needed in many areas to reverse this trend. Investments to create jobs in the formal sector and improve access to socially important goods and services, such as renewable energy and healthcare, will be pivotal to support a sustainable and equal recovery. Our business model has been stress tested through extended periods of crisis and proven to work well in generating the development impact needed to reduce poverty and inequality.

During the year, we made ten new investments in our three sectors (Energy & Climate, Financial Inclusion and Health) with a total value of SEK 1,100 million. These investments were financed through capital injections



from the aid budget and Swedfund's own reflows from the portfolio. The value of Swedfund's contracted portfolio continued to grow and amounted to just under SEK 5,900 million at the turn of the year, which means that the value of the portfolio rose by almost SEK 1,000 million in 2021. The value of the portfolio has increased as a result of a higher level of new contracted investment volumes relative to the value of holdings that have been exited, and the positive impact on the portfolio value during the year as a result of the effects of currency translation. The reported operating profit (EBIT) for the fourth quarter amounts to SEK 121 million, and for the full year to SEK 197 million. This positive result has also been boosted by currency translation, but a number of divestments also generated good capital gains during the fourth quarter, with a marked impact on both operating profit and cash flow. At the same time, ongoing incomes from net interest income and dividends remain at a stable level which exceeds the operating costs of the business.

During the year, we grew our organisation in order to better meet the investment needs that exist in developing countries. Despite the challenges that characterised the year, Swedfund's employees have found new and innovative working methods in order to continue implementing sustainable investments in very challenging contexts. Our expertise within the sectors in which we invest, combined with our business model which balances impact on society, sustainability and financial viability, formed the basis for this year's strong results. Active value creation, along with well-developed partnerships with other development finance institutions, investors, civil society and our portfolio companies, is a prerequisite for continuing to accelerate development and delivery towards Agenda 2030.



During 2022, we will continue to implement UN Global Compact's ten principles regarding human rights, labour, environment and anti-corruption amongst our portfolio companies.

Given the challenges we have seen as a result of the pandemic, with rising poverty, increasing inequality and the climate crisis, it is a very positive sign that our total portfolio is contributing to 253,000 jobs, that around half of the portfolio companies have seen positive job growth, and that 91 percent of our holdings in the active value creation phase fulfil the ILO Core Conventions. A job is often exactly what is needed to get out of poverty, and a job in the formal sector helps to create even more indirect jobs, e.g. through better access to electricity. For the first time, we will this year report the number of indirect jobs that our portfolio contributes to, which is estimated at around 1.5 million. 60 percent of our portfolio meets the requirements for investing in women entrepreneurs, in companies with women in senior positions, with a high proportion of female employees or products and services aimed at women. In the renewable energy sector, our investments provide 217,000 households and businesses with energy through our investments in mini-grids, primarily in rural areas. We expect that this sector will increase in relevance, given both climate change and the need to accelerate the transformation of the energy sector in a global context. 550,000 small and medium enterprises are accessing loans through our investments in financial inclusion, and through our investments in the health sector we have helped to ensure more than one patient consultations.

In 2022, I look forward to continuing to develop Swedfund's operations to meet the enormous need for sustainable investments in developing countries. Digitalization is a tool and an area that has increased in relevance for poverty reduction. Development finance institutions can contribute in several ways to reduce the digital gap between and within countries. Swedfund has developed its portfolio in this regard and made investments where new technology can improve the access to crucial products and services in a positive way, for example within financial inclusion and health. The continued expansion of our organisation, combined with good liquidity and an increase in capital injections from the owner means that Swedfund is strongly positioned for growth in the coming years. In 2022, the deteriorating global environment requires us to act, and we will therefore continue to increase our rate of sustainable investment to fight poverty, reduce inequality and to mitigate the climate crisis.

Maria Håkansson
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