

Municipality Finance Plc

Social Bonds Framework

12 February 2020

BACKGROUND AND PURPOSE

MUNICIPALITY FINANCE PLC

Municipality Finance Plc (MuniFin) is one of Finland's largest credit institutions and the only one specialised in the financing and financial risk management of the municipal sector and government-subsidised social housing production. MuniFin is 100 percent owned by the Finnish public sector; Finnish municipalities, the government of Finland and Keva, a public sector pension fund.

MuniFin is committed to understanding, monitoring and managing the social, environmental and economic impact of its own activities and the financing offered to its customers in order to contribute to the Finnish society's wider goals of sustainable development. This commitment is integrated in the core values and mission of MuniFin, as well as demonstrated through all operations and policies. This Social Bonds Framework is aligned with the strategy and Responsibility Policy of MuniFin.

MuniFin's Social Bonds Framework has been drafted according to the Social Bond Principles ("SBP") published by the International Capital Markets Association ("ICMA").

FINLAND'S WELFARE STATE

Similar to other Nordic countries, Finland has built a strong welfare state dating back to the 1940s. The system is underpinned by the notion of providing equal opportunities for citizens to attain wellbeing and livelihood. As part of this, Finland has a social security system in place which comprises of social insurance, social security benefits, social welfare and health care services. Regardless of income, everyone is covered against social risks including unemployment, sickness and old age.

By law, municipalities are responsible for providing social welfare and health care services for all. Municipalities collect municipal tax to cover expenses related to providing these services but also receive central government transfers and in some cases client payments.

Education is another key pillar of the Finnish welfare state. Finland's education system offers universal access to high-quality and inclusive education for the whole population. To ensure this, education from pre-primary to higher education is free from tuition fees. This right for free education for everyone in accordance with their ability and special needs is set in the Finnish constitution.

Finland has committed to reach the Agenda 2030 and first government-level goals for the implementation of the Agenda were set in 2017.¹ With respect to addressing social challenges, the report from 2017 is focused on the promotion of a non-discriminatory, equal and highly skilled Finland. Overall the situation in Finland has been defined as generally good with respect to social issues but challenges lie in ensuring educational equality and maintaining high education and competence level, the expanding welfare gap between social groups and overall securing the Nordic welfare society.

To overcome these challenges, MuniFin has identified specific projects that aim to meet these targets. In this Framework, special emphasis is placed on targeting the most vulnerable parts of the population as a means of addressing the expanding welfare gap between social groups and selecting projects that can help to alleviate loneliness. In addition, in some cases the target population is defined as the general public as the services are provided to benefit everyone regardless of their income and/or area of residence. These projects help to support the Finnish welfare state as they either improve or maintain access to these services. Please find more information of the welfare state services from a background paper published on MuniFin's website.

MuniFin addresses SDGs related to climate and environment with separate a Green Bond Framework and related green finance offered to customers.

USE OF PROCEEDS

MuniFin's Social Finance Portfolio consists of a pool of selected loans and leases from MuniFin which finance, in whole or in part, Eligible Projects that are in line with the MuniFin Social Bonds Framework, Social Bond Principles (SBP) of the International Capital Markets Association (ICMA) and address selected Sustainable Development Goals (SDGs).

From this Framework, MuniFin can issue:

- i) "*Social Bonds for general social purposes*" – an amount equal to the net proceeds will be allocated to loans and leases within any or all of the three Eligible Project categories determined in this Framework
- ii) "*Thematic Bonds*", promoting solutions to address a specific social challenge – an amount equal to the net proceeds will be allocated to loans and leases within one of the three Eligible Project categories determined in this Framework

In all cases, this Social Bonds Framework will apply in its entirety. The eligible loans and leases financing Eligible Projects will constitute a Social Finance Portfolio.

Eligible Projects include projects that (a) Provide social housing ("Social Housing Projects") (b) Promote welfare ("Welfare Projects") or (c) Improve Education ("Education Projects").

¹<https://julkaisut.valtioneuvosto.fi/handle/10024/79455>

MuniFin's Eligible Projects	SDGs & SBP Categories	
Social Housing Projects	<ol style="list-style-type: none"> 1. Social Housing targeted towards the most vulnerable population² 2. Social Housing projects that support communal living and are targeted to people that fulfil ARA's (The Housing Finance and Development Centre of Finland) criteria.³ 	<u>SDGs</u> Goal 10: Reduced inequalities Goal 11: Sustainable cities and communities <u>SBP</u> Affordable housing
Welfare Projects ⁴	<ol style="list-style-type: none"> 1. Healthcare facilities (incl. public hospitals, health centres/properties, inpatient and outpatient clinics, and care homes) and health service hardware. 2. Sport facilities and public open spaces (incl. parks, fields, centres, swimming halls, ice rinks). 3. Culture facilities (incl. libraries, culture centres, museums, theatres, multipurpose venues). 	<u>SDGs</u> Goal 3: Good health and wellbeing Goal 10: Reduced inequalities Goal 11: Sustainable cities and communities <u>SBP</u> Access to essential services
Education Projects ⁵	<ol style="list-style-type: none"> 1. Education facilities (incl. day care centres, pre-primary education, primary and secondary schools, upper secondary schools, higher education campuses and education centres) and education hardware. 	<u>SDGs</u> Goal 4: Quality education Goal 10: Reduced inequalities <u>SBP</u> Access to essential service Socioeconomic advancement and empowerment

² Includes for example elderly, homeless, students, disabled people, people with mental health or substance abuse problems, people suffering from memory illness, youth, refugees, severely marginalised people and rehabilitees.

³ Residents in eligible buildings must meet the requirement defined by ARA: the selection process is based on social adequacy and financial status which in turn are assessed by the applicant's need for a home, income level and wealth. The communal housing element may include, for example, communal living or hobby spaces, communal gardens, collective use utilities or a building enabling different age and population groups to mix.

⁴

1. All healthcare facilities can be included in the social finance portfolio. By nature these are publicly financed and provide care and treatment to the general public. Within the lowest income groups, the use of primary healthcare services is higher compared to higher income groups as they can substitute public primary healthcare with private healthcare services. Both primary and specialised healthcare provide equal care and treatment to everyone and in accordance with SBP they service target groups by addressing the general public.

2. Sports and culture facilities are screened using an internal evaluation model that analyses post code areas and municipalities across socioeconomic factors to identify areas where investments in health and wellbeing would have the greatest impact on the vitality of the area.

⁵ Education Projects are screened using an internal evaluation model that analyses post code areas and municipalities across socioeconomic factors to identify areas where investments in education would have the greatest impact on the vitality of the area. However, higher education campuses and education centres are exempt from the selection criteria according to the internal evaluation model since they do not recruit students from the local area where they are situated. The higher education campuses and education centres provide education to all Finns and hence the target population is the general public.

The National Building Code sets out the standards for building in Finland. The Decree of the Ministry of the Environment on the Energy Performance of New Buildings (1010/2017) currently in force, sets energy efficiency rating thresholds and minimum requirements for new buildings.⁶ Buildings (in accordance with the said decree) could also in some cases be subject to previous regulation. The calculated energy performance reference value (E-value) is calculated in accordance with the buildings's intended use category and shall not exceed the limits set out in the aforementioned decree.

SELECTION OF ELIGIBLE PROJECTS

Eligible Projects will, on an ongoing basis, be:

- I. identified, verified and pre-approved by MuniFin's Customer Finance department. Customers include municipalities, municipal federations, companies owned and controlled by the municipalities as well as social housing corporations.

and, on a quarterly basis:

- II. Reviewed and finally approved in consensus by MuniFin's Social Evaluation Team. Each loan and lease application will be analysed by the Social Evaluation Team. Projects will be approved if they meet the criteria for each project category as specified under the Use of proceeds and other qualitative factors as determined by the social evaluation team. The Social Evaluation Team consists of three members: two expert members from relevant public sector entities/organisations and one member from MuniFin's Customer Finance department.

MANAGEMENT OF PROCEEDS

An amount equal to the net proceeds of the Social Bonds issued by MuniFin will be earmarked and used to finance new Eligible Projects and to refinance existing Eligible Projects in the Social Finance Portfolio. Projects are classified as new Eligible Projects if they have been completed less than 12 months before the project's approval date in the Social Evaluation Team. The ambition is to use the majority of the Social Bond net proceeds to finance new Eligible Projects. The actual distribution between new Eligible Projects and refinancing of existing Eligible Projects will be available to investors in the annual Social Bonds Impact Report.

Until disbursement to Eligible Projects, the earmarked proceeds will be placed in liquidity reserves and managed according to the Responsibility Policy of MuniFin. MuniFin is committed to carefully monitor and manage the balance between Social Bonds and the Social Finance Portfolio.

REPORTING

MuniFin promotes the use of impact reporting to the largest extent possible. To enable investors to follow the development and provide insight into prioritised areas, MuniFin will publish an annual Social Bonds Impact Report. The Social Bonds Impact Report will include a list of projects financed and their ex-ante impacts on a project category level as well as a summary of MuniFin's Social Bond development. The report will provide:

- Balance between outstanding Social Bonds and the Social Finance Portfolio;

⁶ <https://www.ymp.fi/download/noname/%7BE12CDE2C-9C2B-4B84-8C81-851349E2880B%7D/140297>

- List of projects which have been added to Eligible Projects during the year and their respective amounts;
- information on impact metrics, which may be quantitative and/or qualitative;
- a mapping of the eligible projects' to appropriate SDGs which are being addressed with the social financing;
- the share of financing vs refinancing;

MuniFin is committed to promote and develop its impact reporting and as a result, MuniFin is open to any proposals on how the report could be improved. The Social Bonds Impact Report will be publicly available on MuniFin's web page.

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