

22 August 2024

Nature and biodiversity statement

Finnfund's mission is to build a sustainable future and generate lasting impact by investing in businesses that solve global development challenges. Fighting biodiversity loss and fostering healthy nature, ecosystems and biodiversity play an integral role in fulfilling this mission.

Healthy nature, ecosystems, and the variety of life, as well as biodiversity, are the basis of our societies, cultures, and economies. Human-induced nature degradation has been so rapid in the past 50 years that we are living in the middle of the sixth mass extinction. Today, humankind has crossed six out of nine [Planetary Boundaries](#), or Earth System Boundaries (ESB), described and proposed in 2009 and further quantified in 2023.

Biodiversity loss has profound impacts on businesses globally, particularly in sectors dependent on natural capital, including those which Finnfund finances: renewable energy, agriculture, and forestry. Hence, biodiversity loss poses both risks and new opportunities to businesses operating in Finnfund's target markets, across various sectors.

At Finnfund, we understand that the preservation and enhancement of nature and biodiversity is essential for a sustainable and prosperous future. Our commitment to environmental responsibility is deeply rooted in our values, and we recognise the critical role that biodiversity plays in maintaining the balance of our planet's ecosystems. We also recognise how deeply our economies and the businesses we invest in rely on natural resources and functional, healthy ecosystems. We see the urgency to develop businesses that remain within the Earth System Boundaries and contribute to returning our global system back within those boundaries.

This statement covers the principles we follow in our nature and biodiversity work and demonstrates our ambition level for the future. This statement is an integral part of Finnfund's [Sustainability Policy](#).

I. Background and regulatory context

The [IPBES](#) has identified the five direct drivers of biodiversity loss as changing use of sea and land, direct exploitation of organisms, climate change, pollution and invasive non-native species. Climate change is one of the main drivers of biodiversity loss and one of the [planetary boundaries](#). On the other hand, degrading or destroyed ecosystems can no longer sustain their climate regulating functions, strengthening climate change in turn. In addition, ecosystems lose their resilience and adaptive capacity against climate change effects as a result of loss of biodiversity. These two crises must therefore be tackled together, and actions should be designed to address both nature and biodiversity loss and climate change. The population groups in the most vulnerable position, such as indigenous peoples, women and the poor people living in rural areas in developing countries, are often more reliant on ecosystem services for their basic needs. While not being the cause of these crises, they often suffer the most from them, highlighting their importance in Finnfund's work as a development financier and impact investor.

Along with public and other private actors, Finnfund and other European Development Financing Institutions (EDFIs) are committed to address and contribute to the fight against climate change through a [statement](#) published in 2021. In addition, Finnfund has formulated its own climate change targets in its [Climate and Energy Statement](#) (2021).

This Nature and Biodiversity Statement complements our climate ambitions. In many cases the targets set in both statements can be addressed through the same investments and through similar actions. For example, nature-based solutions to climate adaptation and resilience often also have livelihoods benefits for local communities and help to mitigate climate change by sequestering carbon.

Global concerns about biodiversity loss and the political will to act to address the crisis led to the adoption of The Kunming-Montreal Global Biodiversity Framework (GBF) sets out a pathway to reach the global vision of a world living in harmony with nature by 2050. The framework has been signed by most of the countries, including Finland and most of the countries where Finnfund invests.

Finnish Government policies are formulated to contribute to our country-level commitments towards international agreements and EU-level policies such as the GBF and EU Green Deal. Specific guidance for the development sector is given in the [Guideline for the Cross-Cutting Objectives in the Finnish Development Policy and Cooperation](#) (2023). The guideline highlights protection of the environment with an emphasis on safeguarding biodiversity as one of the five cross-cutting themes and emphasizes prevention of environmental degradation and enhancement of conservation and sustainable use of biodiversity and ecosystems.

These targets also contribute to UN Sustainable Development Goals (SDGs), as they share a common vision of living in harmony with nature and ensuring human well-being and prosperity for all. They also have many synergies and interdependencies, as biodiversity is essential for the provision of ecosystem services that support human health, food security, water supply, climate change mitigation and adaptation, disaster risk reduction and many other aspects of sustainable development. Conversely, achieving the SDGs also depends on the effective implementation of the GBF, as many of the drivers and pressures that threaten biodiversity are also the root causes of unsustainable development, such as land use change, overexploitation, pollution, invasive species, and climate change.

In our work, Finnfund is already committed to contribute towards the SDGs; with this statement we also clarify and make public our commitment to do our part in working towards GBF targets.

Finnfund's Board of Directors will oversee management work in assessing and managing nature-related dependencies, impacts, risks and opportunities. Biodiversity will be integrated into Finnfund Strategy.

Finnfund recognises the importance that development financiers have in implementing The Kunming-Montreal Global Biodiversity Framework and we aspire to be among the leading development financiers in the transition to a just and nature-positive future, while supporting the broader sustainable development agenda. To realise those ambitions, we have identified the following building blocks to frame Finnfund's approach to nature and biodiversity that directly contribute to meeting the GBF targets.

II. Finnfund's nature and biodiversity goals

Finnfund is committed to the following goals:

1. We will ensure no-net-loss of biodiversity in our investments

We embrace our role as environmental stewards, dedicated to fostering synergies between development and nature, and we are committed to cooperate with our investee companies and other partners to ensure no-net-loss of biodiversity in our investments.

Environmental and biodiversity risk and impact assessments are part of our investment process and recognise the double materiality of biodiversity. We underline the conservation and enhancement of biodiversity as an integral component of our investment decisions. Our projects and partnerships are assessed not only for their economic viability but also for their impacts on ecosystems and key species. Through our [Sustainability Policy](#), [exclusion list](#), and The Environmental and Social Performance Standards of the International Finance Corporation (IFC), **we are already committed in our portfolio to ensure no-net-loss of biodiversity, conservation of ecosystem services, and pollution prevention.** We continue to work for no-net-loss and enhance our efforts by developing our tools and by providing support to our investees. We will develop our processes and tools to better understand and demonstrate financial and systemic risk of nature loss to our portfolios.

Our investment criteria incorporate environmental, social, and governance (ESG) factors as guided by the [IFC Performance Standards and World Bank General and Industry Sector Guidelines on Environment, Health and Safety](#), with a strong focus on biodiversity and ecosystem services. [The IFC PS6](#) (Biodiversity Conservation and Sustainable Management of Living Natural Resources) aims to protect and conserve biodiversity and maintain the benefits from ecosystem services. IFC PS6 sets out objectives and requirements for clients to avoid, minimise, restore and offset adverse impacts on biodiversity and habitats in their area of influence, by following the mitigation hierarchy.

Some of the key requirements of the IFC PS6 are:

- To conduct a biodiversity risk and impact assessment to identify the potential impacts of the project on biodiversity and ecosystem services, and to apply the mitigation hierarchy to avoid, minimise, restore, and offset those impacts.
- To apply a precautionary approach to the management of living natural resources, and to adopt practices that are sustainable, adaptive, and based on the best available science and traditional knowledge.
- To protect and conserve critical habitats, which are areas with high biodiversity value, and to avoid any significant conversion or degradation of such habitats.
- To avoid impacts on legally protected and internationally recognised areas of biodiversity value, such as protected areas (local, national, and internationally recognised), nature reserves, and World Heritage Sites, and to consult with relevant authorities and stakeholders on the proposed project activities.
- To avoid or minimise impacts on priority biodiversity features, which are species or ecosystems that are endangered, endemic, rare, or

threatened, and to implement measures to protect and conserve them.

- To respect the rights and interests of indigenous peoples and local communities in relation to biodiversity and ecosystem services, and to ensure their effective participation and benefit-sharing in the project.
- To monitor the implementation and effectiveness of the biodiversity management plan, and to report on the biodiversity performance and outcomes of the project.

IFC PS6 is aligned with the Convention on Biological Diversity (CBD) and its objectives of conservation, sustainable use, and fair and equitable sharing of benefits arising from the utilisation of genetic resources.

We work alongside our investees and partners to build capacity in environmental protection and conservation, with a strong focus on biodiversity. Through knowledge sharing and collaboration, we aim to further build our internal capacities, and empower our investees, local communities, and institutions to become stewards of their natural resources. We actively drive the biodiversity engagement of our investee companies for them to find solutions to reverse nature loss.

2. We will develop and foster nature and biodiversity net-gains

Together with our investees and partners, we actively seek investment opportunities that develop and implement solutions contributing to the GBF goals and targets, including mechanisms that address both biodiversity loss and climate change. We aim not only to avoid nature and biodiversity loss, but also to explore solutions that create positive impacts on biodiversity and contribute to the recovery of nature.

This is done on an individual investment as well as portfolio level. We seek to identify the following actions:

i) Actions that restore biodiversity and address climate change

Biodiversity loss and climate change can be addressed together using Nature-based Solutions (NBS). Nature-based Solutions are actions to protect, conserve, restore, sustainably use, and manage natural or modified terrestrial, freshwater, coastal and marine ecosystems which address social, economic, and environmental challenges effectively and adaptively, while simultaneously providing human well-being, ecosystem services, resilience, and biodiversity benefits. NbS offer practical solutions to safeguard biodiversity while benefiting both people and the planet both through restoration of natural habitats and by integrating nature-positive elements into productive landscapes. NBS can be alternatives to engineered solutions to human problems e.g. restoring wetlands instead of making river channels smoother with concrete; carbon sequestration as in NbS carbon credits; and integrating nature restoration into nature-dependent investments with a large land footprint such as forestry and agriculture, where the services provided may be fertile soil, water retention and pollination for example. Nature-based solutions play a crucial role in achieving the GBF targets, particularly under Targets 1 and 13.

Concrete examples of NBS already applied in our portfolio companies are afforestation, reforestation, and forest restoration for climate change mitigation, and regenerative agricultural practices for climate change adaptation and mitigation. **We are committed to seeking and promoting more investments that apply NBS in their operations through restoration and integration of nature positive elements in productive landscapes to achieve biodiversity benefits that can be monitored and verified.** We will assess all our investments in agriculture, forestry, and renewable energy for NBS potential.

ii) Actions that address the drivers of biodiversity loss

A key factor in determining a nature-positive solution in our portfolio is to what extent it addresses the drivers of biodiversity loss defined by IPBES: land and sea use change, climate change, pollution, over exploitation of natural resources and invasive species. Specific examples of generating biodiversity net gains through addressing the drivers of loss are, circular economy solutions, resource efficiency, impacts generated in supply chains, wastewater treatment and ecosystem restoration.

Finnfund [exclusion list](#) and our adherence to IFC Performance Standards, particularly PS 3 and PS 6 address IPBES drivers of loss. In our key sectors, we specifically seek opportunities to restore biodiversity, address climate change and tackle the drivers of biodiversity loss by supporting companies to adopt practices such as:

Agriculture: Efficiency through improved yields to reduce land needed for production, regenerative farming methods, climate-smart agriculture, finding alternatives to chemical pesticides and fertilisers.

Forestry: A landscape level approach in land use planning to ensure connectivity between natural areas, and maintenance and/or enhancement of ecosystem services that trees, forests and plantations provide, conservation and restoration of nature in non-productive and set-aside areas for biodiversity and carbon benefits, reduced use of chemicals, and ensuring soil cover also in the early stages of plantation development.

Financial Institutions: Incorporating biodiversity considerations in FI's Environmental and Social (E&S) management systems and investment decisions, as well as training and knowledge sharing.

Energy: Project and infrastructure design, technology choices, NbS in hydropower projects for watershed management, compensation mechanisms, airshed protection in wind energy projects

Digital infrastructure and solutions: Project and infrastructure design, sustainability in supply chains, energy efficiency and renewable energy to address climate change.

3. We are committed to more systematic, harmonised, and transparent nature-related financial disclosures and reporting

Global frameworks and standards to identify, monitor, report and disclose biodiversity- and nature-related risks and impacts are evolving but at their early stages of implementation, and still under development. To monitor our performance, **we push for more systematic, harmonised, and transparent nature-related financial disclosure and reporting.**

We continuously develop our monitoring and reporting mechanisms, keeping abreast of global reporting frameworks being developed. We are committed to align our monitoring and reporting with global standards as appropriate, which we hope will help us to position ourselves as one of the leaders in incorporating nature and biodiversity in decision making within the financial

sector. We will publish an annual sustainability report that includes detailed information on biodiversity conservation efforts, engagement with stakeholders, and progress towards biodiversity-related goals. To demonstrate our commitment, we have joined the [TNFD](#) Early Adopters list.

Because global frameworks and standards on biodiversity reporting are still evolving, Finnfund has formulated a Nature and Biodiversity framework to conceptualise and systematise our approach. The framework builds on the IPBES drivers of biodiversity loss, and sets indicators to assess, measure and monitor our investees' impacts on nature, both negative and positive.

We will improve our capacities to utilise the data and information collected through the framework in our strategic decision-making, and in reviewing and developing our policies and practices. We will continue working with our Framework to include indicators and metrics for assessing our impact also on key Planetary Boundaries. Through accumulating data that gives us more in-depth understanding of biodiversity impacts at investee and portfolio level, we will set specific, measurable targets for nature and biodiversity.

III. Our Call to Action

As a development financier, Finnfund mobilizes financial resources, can influence investee behaviour, and drives positive change in the fight against biodiversity loss. We invite all our stakeholders, including investors, clients, partners, and employees, to join us on our journey towards a more bio-diverse and sustainable future. Together, we can make a positive impact on the natural world, creating a legacy of biodiversity that enriches both our planet as well as all of us.

Finnfund is committed to being a responsible and forward-thinking financial institution, using our investments to promote not only economic growth but also the health and vitality of our planet's ecosystems. Biodiversity is not just a part of our mission: it is at the heart of it.

To achieve our commitments, we seek partnerships to share lessons learnt and best practices, and to mobilise other actors to leverage our impact, as well as generating alliances with organisations that provide technical and scientific support in addressing, monitoring and disclosing our impact on nature. We will be an advocate for biodiversity within our sphere of influence and among DFIs and will showcase success stories to share best practice.

Discussions and cooperation with various stakeholders and experts have been a key element in preparing this statement.

This statement has been approved by Finnfund's Board of Directors. It is valid as of 22 August.2024 and will apply from that date onwards.