Sustainable Development Goals Finance Roadmap

Finnish Roadmap for Financing a Decade of SDG Action

2021

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This Roadmap has been prepared by Gaia Consulting Oy in collaboration with Trinomics B.V. and AARC Ltd

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For further information: https://tem.fi/en/developing-finlands-sustainable-finance-ecosystems

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Introduction

1.1 An urgent need to make finance work for SDGs

The Agenda 2030 for Sustainable Development, adopted by all UN Member States in 2015, outlines a shared blueprint for peace and prosperity for people and the planet. The subsequent 17 Sustainable Development Goals (SDGs) form the core of that agenda, which can only be achieved by developed and developing countries working in partnerships.

Reaching the ambitious SDGs by 2030 will require major societal transformations and drastically stepping up the pace of implementation of Agenda 2030 as we enter a decisive decade for people and the planet. While there is broad consensus that economic policy and financial flows should better serve Agenda 2030 implementation, there is a pressing need to develop and share lessons on how to concretely establish **finance ecosystems that systematically mobilize SDG aligned investments at the required scale and pace** - locally, nationally and internationally. [1]

The Paris Agreement (PA), as agreed under the UN Framework Convention on Climate Change (UNFCCC), together with the SDGs, aim at a **fundamental transition of societies to ensure a sustainable and equitable future for all**. These international commitments, shared by all EU Members States including Finland, stress the importance of active collaboration and tailored partnerships between governments, the private sector, and other non-state actors, to mobilize the needed expertise, resources, and finance.

The European Green Deal (EGD) and its investment pillar, the Sustainable Europe Investment Plan (SEIP), are an integral part of the Commission's strategy to implement the UN 2030 Agenda and the SDGs.[2] Aligned with the ambitions laid out in the EGD, reaching the revised EU 2030 climate and energy targets would require additional investments of well above 260 billion EUR a year by 2030.

With regards to financial resources, additional investments worth 2.5 trillion USD are needed in developing countries on an annual basis until 2030 to achieve the SDGs. While these amounts may seem substantial at first glance, they are moderate compared to for example the size of the global bond market of around 130 trillion USD in 2020 [3] or the 84 trillion USD level in gross world output in 2020 [4]. This underlines the importance to ensure that during this decade, all finance must systematically be geared towards SDG alignment (Figure 1). In short - and making reference to on-going work on sustainable finance within the European

[1] See e.g., United Nations Secretary-General's Roadmap for Financing the 2030 Agenda for Sustainable development: https://www.un.org/sustainabledevelopment/wp-content/uploads/2019/07/UN-SG-Roadmap-Financing-the-SDGs-July-2019.pdf
[2] https://ec.europa.eu/commission/presscorner/detail/en/qanda_20_24
[3] https://www.icmagroup.org/Regulatory-Policy-and-Market-Practice/Secondary-Markets/bond-market-size/#:~:text=As%20of%20August%202020%2C%20ICMA,tn%20corporate%20bonds%20(32%25)
[4] http://statisticstimes.com/economy/world-gdp.php

Union - there is an urgent need to shift the focus of all finance from brown to green[5], and from green to sustainable comprehensively – hence finance should "do no significant harm" to the SDGs.

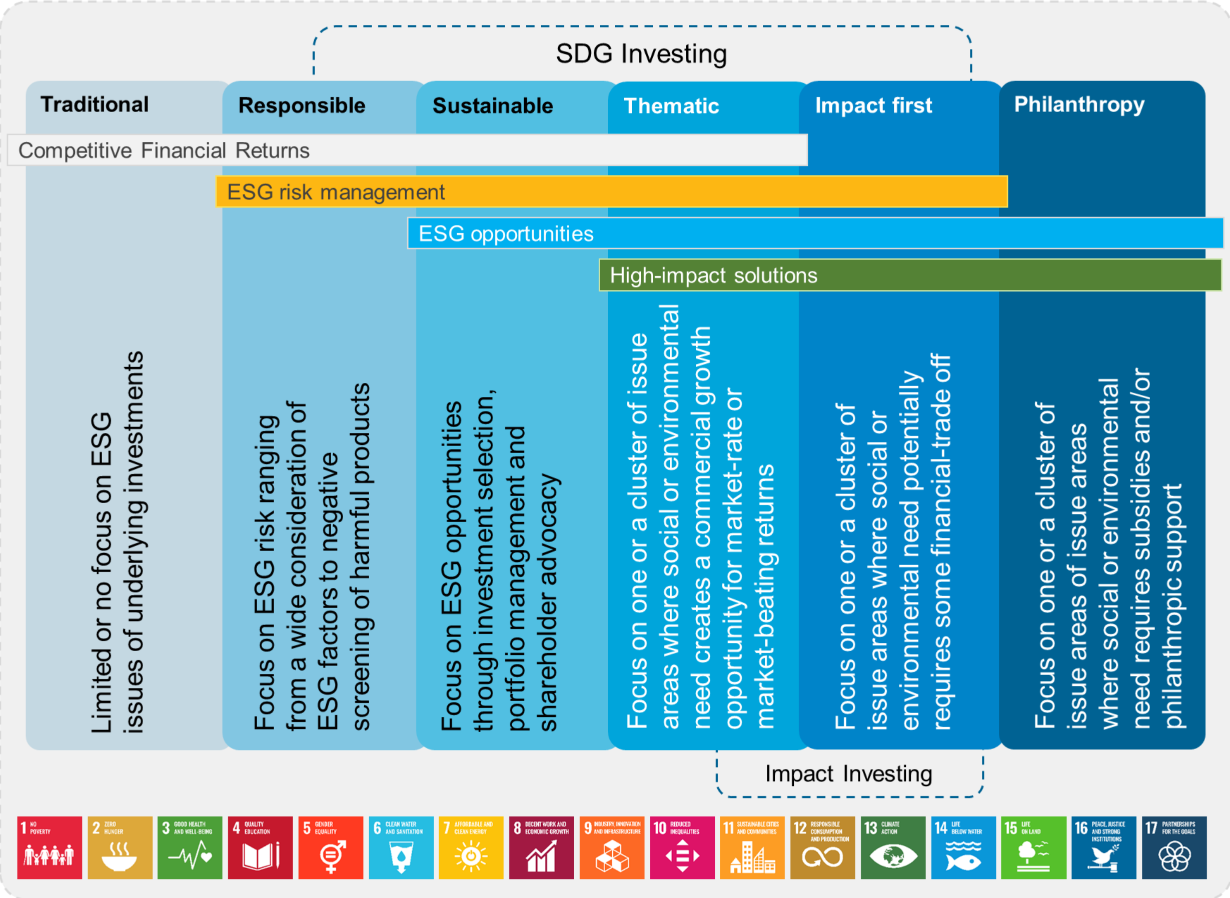

Figure 1. The current finance flows do not allow us reaching our 2030 targets indicating a need for stepwise SDG alignment of all financial flows (source: adapted from European SRI Study 2012, Bridges Ventures 2016).

[5] In parallel to the further development of the EU Taxonomy for Sustainable Activities, for the non-climate related environmental objectives and new activities, the EC and the EU Platform on Sustainable Finance as its advisory body are investigating the development of "extension options linked to environmental objectives" activities. Such taxonomies could further accelerate the shift of capital towards more sustainable activities, and improve transparency around climate-related and other ESG risks.

1.2 A participatory process to build commitment and partnerships

The Finnish Sustainable Finance Roadmap 2021 (hereinafter referred to as “Roadmap”) is the outcome of a participatory process launched back in 2018 (Figure 2). Recognizing the common SDG challenges, a national study was commissioned by the Finnish Ministry of Agriculture and Forestry on the development of financing solutions and partnerships that support the SDGs.

Through a participatory process, a common and shared vision on how to boost SDG investments and their financing was identified. The process recognized key stakeholders who can contribute to addressing central barriers and bottlenecks for mobilizing finance, in particular private finance, to reach the SDGs in Finland and accelerate Finnish contributions globally. The process engaged a wide spectrum of Finnish stakeholders, also harnessing lessons learned from international forerunners. This process resulted in 2019 to the publication of a shared vision and *“Roadmap Promoting SDGs through Finnish investment”* [6] with a number of recommendations for next steps.

Building on this national commitment and with the objective to accelerate implementation, Finnish stakeholders, with the support of and in cooperation with the Directorate General for Structural Reform Support (DG REFORM) of the European Commission, proceeded in 2020 to refine the Roadmap and have launched the implementation of SDG finance pilot ecosystems in 2021 (Figure 2 and Annex 2). [7]

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[6] Roadmap Promoting SDGs through Finnish investment, Finnish version available at: https://mmm.fi/documents/1410837/0/Tiekartta+SDG-tavoitteiden+rahoittamiseksi_final.pdf/10c29af8-9c1b-0c1e-8d0c-51670898f846/Tiekartta+SDG-tavoitteiden+rahoittamiseksi_final.pdf?t=1603870067291

[7] The project homepage is available at https://tem.fi/en/developing-finlands-sustainable-finance-ecosystems

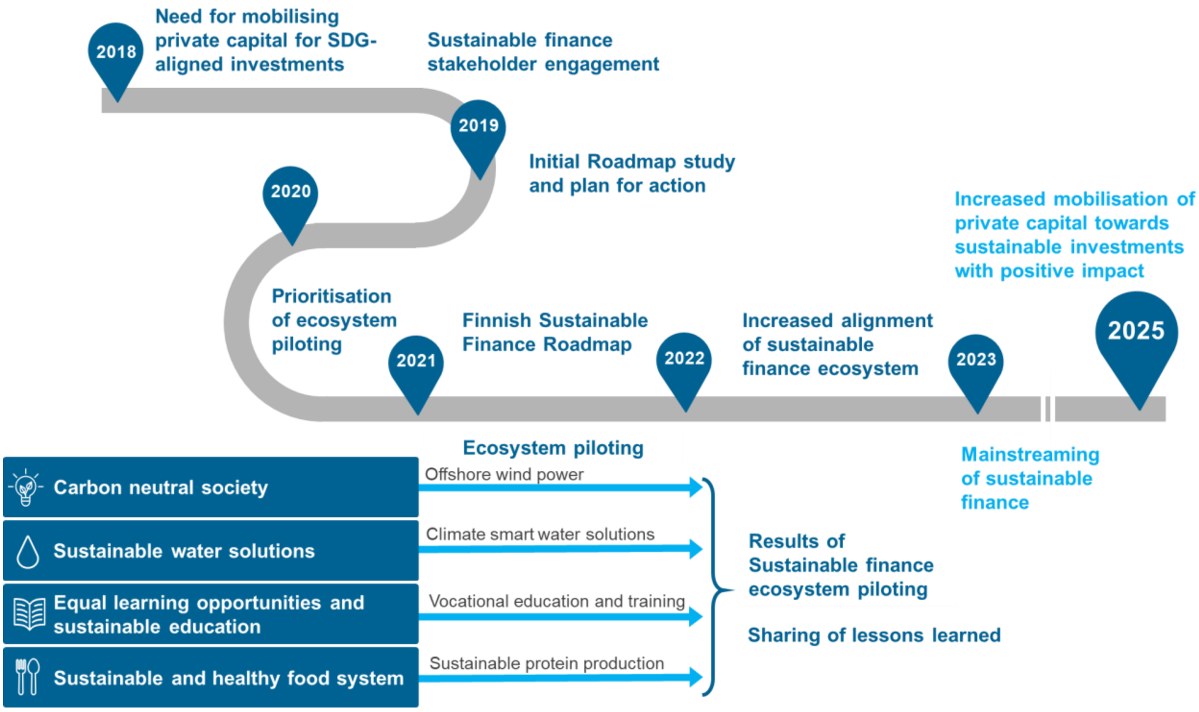


Figure 2. The Finnish sustainable finance ecosystem journey - building commitment and putting into action. The process is described in more detail in Annexes I-II.

The implementation of this Roadmap 2021 aims to support Finnish public sector organisations, institutions, private sector, NGOs, academia as well as other stakeholders, in systematically and strongly increasing finance for ecosystems that provide solutions to the SDGs in Finland and globally, and in which Finland has strong expertise. As the Finnish economy is an open economy, the Roadmap implementation is intrinsically linked to EU and global development trends and markets.

The Roadmap process in Finland to date has also revealed a broad recognition that a functional SDG finance ecosystem helps to connect business development with critical SDG challenges – it is one of the main enablers for transforming societies, and at best can be a catalyser of innovations and a critical booster of green and equitable growth. The Roadmap process and its implementation has also been geared in a manner to actively learn from EU and international peers, while also contributing to sharing experiences from Finland with other EU Member States and international partners, noting the common challenges faced internationally.

1.3 Elements of the sustainable finance ecosystem

The Roadmap embraces **five key components** that can help build a finance ecosystem that delivers SDG impacts in a more systematic manner. This conceptual framework for the Finnish Roadmap has allowed bringing Finnish stakeholders around “the same table”, while also structuring the analytical work for identifying barriers and bottlenecks, learning from peers and communicating of benefits from working in ecosystems. The components are presented in figure 3 below and introduced briefly here, with more detailed presentation within the actual Roadmap (chapter 2).

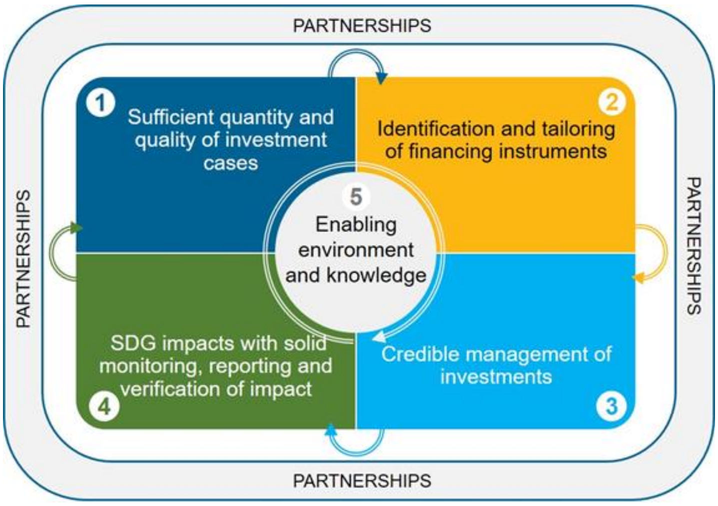


Figure 3. Five key components as Ingredients for building a sustainable finance ecosystem.

The identification and development of bankable investment cases is a well-recognized challenge internationally. While the Finnish ecosystem has its particular challenges in **creating an investment pipeline of sufficiently high quantity as well as of “SDG aligned” quality (component 1),** the pilot ecosystems that aim to boost Roadmap implementation in 2021, are geared to identify potential solutions in various sectors and investment environments.

This links directly with the need to **complement existing financing instruments and tailor already available instruments (component 2)** in the Finnish finance system. A set of valuable financing instruments are already available in Finland. However, in many cases these instruments do not create a continuum that would systematically produce a solidly growing pipeline of bankable investment cases and hence allow mobilizing private finance to SDG aligned investments.

The Finnish Roadmap process highlights the importance of **proven track records in successfully managing SDG aligned investments (component 3).** A clear improvement is taking place in this domain in Finland, with several finance actors actively building that track domestically and internationally (Annex). Without this credibility, the costs of finance, required de-risking instruments etc. will remain central bottlenecks for mobilization at scale.

Although several Finnish finance stakeholders have recently taken concrete steps to amend their SDG impact frameworks, **major efforts are still needed in ensuring the quality,**

comparability, and overall transparency of SDG impact reporting (component 4). While this challenge is being addressed through several international initiatives and frameworks, the Roadmap identifies various ways for Finnish stakeholders to step up.

Finally, the SDG Roadmap recognizes **the need for an enabling environment, appropriate regulatory framework, accompanied by SDG finance knowledge and skills development,** as well as education and systematic learning for addressing the identified barriers **(component 5**). The stability and predictability of the enabling environment, as set up by the public sector, nationally, within EU and or through international agreements, is key. This enables building finance ecosystems for more resilient societies that can handle new and emerging sustainability challenges and to ensure that the policy development, including major green stimulus packages such as in the case of COVID-19, are aligned with the global sustainability goals.

This SDG Finance Roadmap has been elaborated with continued support from the Finnish authorities, creating a good basis for successful implementation, and eventual updates and amendments to the Roadmap during this decade of SDG action.

Finnish sustainable finance Roadmap

2.1 Making SDGs happen through Finnish investments

Reaching the ambitious SDGs by 2030 will require major societal transformations in Finland and internationally. Ensuring that everyone, regardless of their location or birth, has equal access to an adequate living environment requires a significant input from the public and private sector as well as the civil society. To enable this transformation during this decade, all finance must systematically be geared towards SDG alignment (figure 1).

A clear change is under way (Annex). Private investors, including large-scale institutional investors, already consider the responsibility of an investment a cornerstone of their investment policy. The number of investment products taking the environmental and social responsibility of investment products into account is rising rapidly as more and more investors are looking for a holistic effect and aiming for a real-world positive impact. NGOs are increasingly bringing their own expertise to impact investing.

This change is being driven by several international initiatives and forerunners. A similar change is well under way in Finland, but it is not moving fast enough in terms of the international development objectives. This national Roadmap aims to build required awareness and commitment, to help eliminate identified bottlenecks and form a Finnish sustainable finance ecosystem, which is an integral enabler and booster of the needed SDG solutions.

Terminology and key concepts within the Roadmap

Investment

The Roadmap report uses the term ‘investment’ as a core concept. This broad term has been chosen partly to encourage private investors to provide financing for the SDGs: ‘investment’ works well for this group. An investment may be a company, a scheme (perhaps more well-known in the context of development cooperation), a project, an investment product (such as a share or a bond) or a fund.

SDGs and SDG impact

This Roadmap refers to the Sustainable Development Goals of the UN’s 2030 Agenda by using the international abbreviation ‘SDG’ (‘Sustainable Development Goals’). The connections between the goals and the principles of sustainable development must be understood in order to commit to the SDGs and to create change.

Impact investing

Impact investing refers to investment striving for measurable environmental and/or social benefit in addition to profit. Investing with a view to make an impact has increased significantly in recent years.

Ecosystems [8]

Ecosystems are built on interaction between companies, entrepreneurs, research, public administration, and third-sector actors. An ecosystem is both a structure and an interactive process, in which actors complementing each other join forces to create value. Ecosystems can play a key role in the economy because ecosystem actors spur each other on, complementing each other’s expertise and capabilities, with the ecosystems in this Roadmap having a particular focus how to enable sustainable finance

[8] In Finland, creating new ‘world-class’ business ecosystems are among the business and innovation policy objectives set out in the Programme of Prime Minister Marin’s Government. *Collaborating for a sustainable future - ecosystem guide*. VTT Technical Research Centre of Finland (2021). https://www.vttresearch.com/sites/default/files/pdf/publications/2021/Collaborating_for_a_Sustainable_Future.pdf

Finnish sustainable finance Roadmap Vision and Mission

Vision

To create an internationally effective financial ecosystem which will enable Finland to have a leading role in creating solutions for global sustainability challenges and attaining the SDGs.

Roadmap

A strategic plan to help transform the vision into attainable goals and actions. The purpose of the Roadmap is to offer Finnish actors a joint understanding of how different parties in Finland can contribute towards attaining the UN's sustainable development goals and especially of how adequate financing can be mobilised. Many of the identified actions can and should be done through international partnerships.

Mission

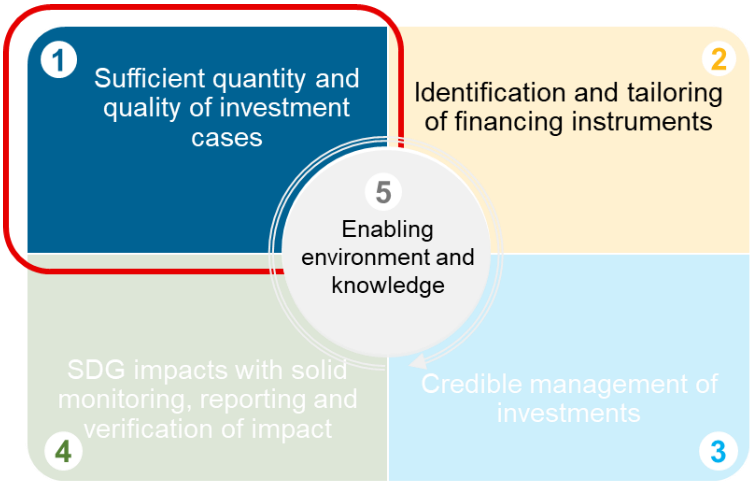
To develop financing mechanisms and partnerships with private, public, and third sector stakeholders, which will help channel an increasing amount of private funds towards investment supporting all three sustainable development areas (figure 4) in Finland and internationally.

Figure 4. The illustration divides the 17 Sustainable Development Goals into three areas, also suggesting linkages and prioritization between various goals. Source: Azote Images/Jerker Lokrantz for Stockholm Resilience Centre.

2.2 Roadmap goals and actions

The Finnish sustainable finance Roadmap brings key stakeholders together around five critical areas of collaboration (figure 3). It identifies barriers and bottlenecks to be addressed by public and private sector, by NGOs, academia, and institutions – highlighting the need to build better partnerships, as a precondition for a Finnish sustainable finance ecosystem that delivers SDG impacts at required scale and pace. Goals and key actions are presented for each identified area of the Roadmap. While many stakeholders are working already across several if not all five areas, it is important to strengthen the collaboration, make use of the comparative advantages of different actors, in line with the commitment established during the Roadmap process in Finland during the past few years (figure 2).

Goal 1: Ensure sufficient quantity and SDG quality of investment cases



A key area of action is ensuring the availability of bankable and attractive SDG investment opportunities for investors, both domestically as well as in the international market. While interest towards SDG financing has grown significantly in the recent years, there is still a constant lack of eligible SDG investments across different sectors. From investors perspective, addressing the urgent need to close SDG investment gap globally will require the development of a strong pipeline of potential investment opportunities. This is a familiar issue for those involved in development cooperation and increasingly highlighted by private actors seeking SDG aligned investment opportunities. In the SDG financing context, this is more meaningful than usual: a “good” investment must also have a real impact in terms of sustainable development goals.

A growing number of businesses are linking their services and solutions to SDGs. Also, investors have increasingly started to see the opportunities of SDG aligned investments. However, screening and finding potential attractive investments is still a major challenge for investors. The lack of available finance to SDGs is not a main barrier in many cases, but rather a lack of investment-ready bankable projects with well-prepared and credible business plans. Even though funds are available, potential investments need to pass the investors’ criteria for a good investment, both from financial and non-financial perspective. Availability of money in the financial market could boost investments in SDG aligned opportunities, but these investment cases need to show credibility, professionalism, and strong expertise, as well as well-prepared investment and operational plans to be able to compete for the available finance.

Likewise, Finnish private investors have been calling for a portfolio of potential investments that is sufficiently broad and offers credible and profitable business cases. This is how financing works – funds can be found when there are suitable investments and investment products. The same is true for more traditional development cooperation.

Overall, project pipeline development will require knowledge of the local markets and enabling frameworks as well as in many cases also collaboration and partnerships with local partners. Financial sector actors could increasingly seek new ways for collaboration to enhance access to different geographies. Also, capacity building of SDG solution providers, especially in terms of developing and supporting business skills is identified as an important challenge requiring attention. Eliminating these bottlenecks is one of the key requirements for realising the vision in this Roadmap.

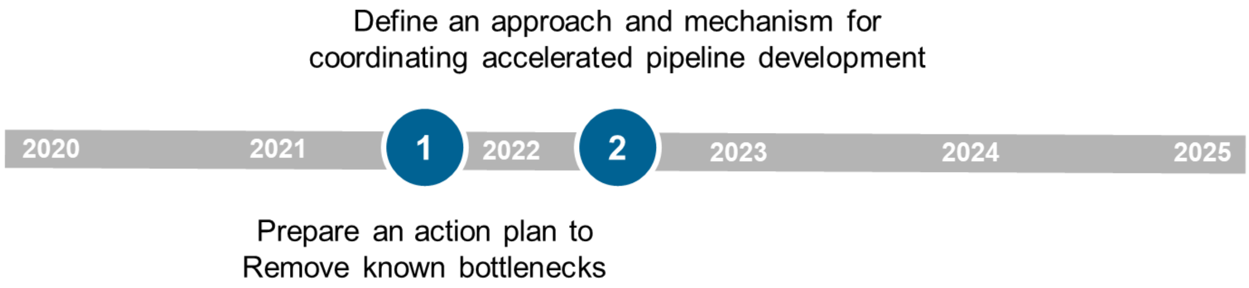
Actions

1. Prepare an action plan to remove known bottlenecks in identifying SDG aligned investments and rendering them bankable. It is central to recognize the actors (including international platforms and partnerships) who can contribute to identifying investments with SDG potential. The plan of action for removing these bottlenecks shall also recognize any gaps in skills and resources for creating an SDG pipeline with potential to mobilize private finance. Building a strong SDG aligned portfolio that can catalyse private capital requires:

- Proactive identification of SDG development needs and markets potentials, in a manner that simultaneously recognizes SDG impact potential and the investment potential, integrated into a credible business model, and that allows monitoring and reporting of expected investment revenue and SDG impacts in a transparent way.
- An in-depth understanding of needs and the specific context of the investment to credibly manage risks (considering among other the country & local context, socio-economic and cultural settings, legal frameworks, environmental conditions, types of partners etc.) and to enhance bankability.
- Developing a portfolio that provides opportunities for various types of investors, with regards to risk & reward appetite, instruments, ticket-size, time scales, thematic and/or sectoral focus etc.

2. Define a suitable approach and mechanism for nationally coordinating accelerated pipeline development. The approach should allow systematic improving of the pipeline development, provide a national platform for sharing of lessons learned and good practices, and for discussing investment criteria and SDG disclosure alignment (closely linked with actions for developing SDG impacts – see Roadmap area 4). The approach could build upon existing national platforms and actors (public, private and NGOs) engaged in impact investing as well public organizations in charge of ownership steering processes of relevant funding agencies (national and regional) in Finland.

Indicative timeline for actions:



Recent developments – selected highlights

Case example 1. - The UN Global Compact Local Network of Finland

The UN Global Compact Local Network was officially established in Finland in January 2020 (https://www.unglobalcompact.org/engage-locally/europe/finland) and has since summed a total of 150 Finnish signatories (as of July 2021) ranging from microenterprises to state-owned companies. The Network **supports Finnish business in their work in continuing to adopt SDGs and finding new business opportunities, changing ways of working and building new partnerships.** The Network organizes for example the SDG Ambition Accelerator, which provides a 6-month journey for participating companies to setting ambitious goals that target the world's most pressing challenges and are aligned with the SDGs.

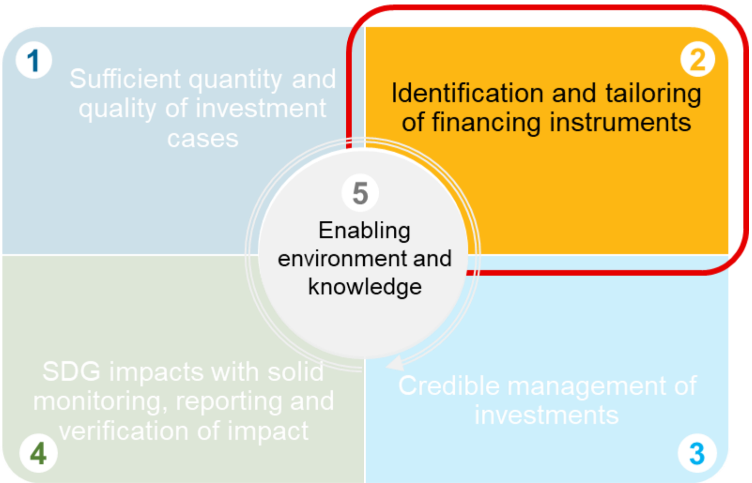
Case example 2. - Dutch Fund for Climate & Development (DFCD)

The DFCD (www.thedfcd.com) was established in 2018 as an additional instrument for the Dutch government's efforts in contributing to the Paris Agreement and the SDGs. The fund is managed by a pioneering consortium of the FMO (lead), Climate Fund Managers, WWF-NL and SNV International, which is rather unique in its kind by bringing development finance institutions, investment managers, NGOs and civil society organisations together for addressing SDG needs in developing countries.

The DFCD's investment strategy focusses on **high-impact finance and projects around climate adaptation and resilience** (e.g., climate-resilient water systems, water management and freshwater ecosystems, forestry, climate-smart agriculture, and restoration of ecosystems) via **three (3) separate but operationally linked facilities** based on the strengths of each of the consortium partners**. A 'landscape' strategy for deal origination and execution has been adopted in order to allow consortium parties to actively source and develop private sector investment opportunities** in-and-around, as well as downstream opportunities from own investment activities, and create a value-chain between the different facilities.

1. The **Origination Facility**, managed by WWF-NL and SNV International, develops project identification and (pre-)feasibility activities across the DFCD impact areas and thematic sub-sector focus. The rich partner network of these consortium members on the ground in developing countries and among peers within the NGO and civil society community is a strong selling.
2. The **Land Use Facility**, managed by FMO, targets investments in sectors relating to agroforestry, sustainable land use and climate resilient food production that have graduated from the Origination Facility. Next to the earmarked funding of this facility under the DFCD, FMO offers their financial instrumentation to provide growth finance via FMO's other investment channels and external networks with other development finance institutions.
3. Similarly, the **Water Facility**, managed by Climate Fund Managers (CFM), contributes and invests in the development, construction and operational phases of water and sanitation infrastructure projects graduating from the Origination Facility. CFM utilizes here in the roll-out the proven fund structure of Climate Investor One (CI1) and will target a Development Fund, a Construction Equity Fund and a Refinancing Fund (known as Climate Investor Two – CI2)

Goal 2. Identification and tailoring of financing products



The Finnish finance ecosystem comprises a diversity of actors with solid experience in various financial instruments in Finland and internationally. However, it is necessary to better understand in which cases the bottleneck is linked e.g., to a lack of bankable investments, and/or when the key bottlenecks are of regulative or political nature or a combination thereof - before developing another financing instrument or launching another fund. Therefore, the Roadmap suggests to carefully analyse existing instruments, the potential for tailoring and better collaboration that would best enable mobilising finance and develop partnerships to pilot and scale up SDG solutions. The tailoring of instruments, accompanied with collaboration and credible partnerships can help overcame bottlenecks and contribute to functional finance value chains, or "complete lifecycle financing" as exemplified by the DFCD (case example 2 also integrates this aspect).

For institutional investors, the choice of instrument focuses on the fund portfolio, which needs to be diversified enough to reduce the fluctuation in total returns and to mitigate investment risks. Getting these investors on board is essential among other from the perspectives of scale and investment horizon. To raise awareness, a varied instrument selection is required because the return expected by private investors and their risk appetite vary significantly. In recent years, new thematic private equity and venture capital funds have emerged in Finland, focusing on investing in SDG aligned solutions. Thematic funds bring additional SDG aligned private equity in the market, as well as strong knowledge of thematic areas.

For example, in results-based finance, pay-for-success bonds may be well-suited to financing pilots in developing countries as well as in Finland. Finland has been one of the forerunner countries of piloting social impact bonds (SIBs) and learnings from these pilots could be scaled further to finance SDG investments in Finland and internationally.

In addition, the growing public interest towards investing in general as well as especially in sustainable investing could provide opportunities to engage individuals and retail investors in SDG financing. For example, the Finnish retail bank S-pankki has previously offered its impact funds (SIBs) to professional investors but is aiming to broaden the access also for experienced retail investors.[9] In the case of investments supporting the SDGs which can be considered high-risk, it may initially be easier to recruit, for example, wealthy individuals or

[9] In Finnish: https://www.fim.com/fi/nakemys/2021/sijoita-hyviin-tekoihin-vaikuttavuussijoittaminen-auttaa-ratkomaan-yhteiskunnallisia-ongelmia/

foundations. For example, foundations could target specific thematic areas (for example, food, agriculture, youths, environment, etc.) based on their own mandate, values and risk-profile. Moreover, they could also raise awareness among the public and other stakeholders, encouraging step-wise broader participation. However, currently there are also regulatory bottlenecks for the participation of broader public and individuals, e.g. allowing to donate money for certain organizations but not to provide money for investment purposes for the same organizations.

The possibility of creating novel public and private sector partnerships and risk-sharing mechanisms (e.g., first-loss) will be explored more closely as part of the Roadmap implementation, particularly from the point of view of institutional investors. One of the key questions to assess together with relevant stakeholders, is how to create an instrument(s) which corresponds to the institutional investors' demands for secure returns and is still in line with the legislative requirements for public financing. Blending[10] can be an important way to "tip the scales", to help make assets like sustainable energy and water infrastructure in emerging markets investable by largescale, mainstream capital.

[10] Blended finance leverages development finance, such as official development assistance, to attract new commercial capital towards projects that contribute to SDGs, while providing financial returns to investors. OECD.

Actions

3. Screening of existing financing instruments and approaches. The participatory screening process allows building stakeholder awareness of instruments and partnerships already available and avoid wasting time on reinventing wheels. The analysis allows:

- Assessing the current level of mobilisation of instruments and what is needed to use the current instrument selection to mobilise private funding for the SDGs.
- Identifying potential instrument gaps and shortcomings in the existing sustainable financial ecosystem.

4. Defining, in collaboration with key stakeholders, better tailoring and/or combinations of existing instruments, or new ones to address these gaps, taking careful note of

- The ultimate purpose of the financing instruments developed and tailored, i.e. recognizing an SDG impact driven theory of change.
- Demand and applicability of the instruments, i.e. recognizing the mandates and capacities of various actors within the sustainable finance ecosystem.
- Enabling environment development (national, EU level, international) and/or potential regulatory constraints (e.g. EU competition or State Aid rules).
- Functionality and feasibility aspects in implementation of these instruments, e.g. with regards to capacities to roll-out and scale-up and allowing credible and transparent tracking of SDG alignment.

Indicative timeline for actions:

Recent developments – selected highlights

Case example 3. - Launching of the Finnish Climate Fund

In December 2020, a **Finnish Climate Fund** was launched[11]. The Fund´s focus is on **climate mitigation, accelerating low-carbon transition and digitalization.** Approximately two thirds (65%) of the Fund's investment cases will focus on climate change and the rest (35%) on digitalization.

The Fund's focus stems from the need to develop solutions that could support the transition to a low-carbon economy. Such solutions could be associated for example with circular economy, clean energy technology or energy efficiency. The yearly need for additional investment in Finland is estimated to be 200 million EUR for digitalization and 1000 million EUR for climate change related investment cases. **The Climate Fund could help in bridging some of the current financing gap.** Primarily the Fund will invest to scale up new climate related technologies. Additionally, the Fund can invest in **public-private partnerships, public platforms or funds**. The Fund's investment process considers emission avoidance and EU sustainable taxonomy related criteria, including "do no significant harm" screening of investment cases.[12]

Case example 4. - New thematic Venture Capital funds are emerging in Finland

Helen, one of the largest energy companies in Finland, launched a new venture capital operation under a name of **Helen Ventures**. Helen Ventures aims to invest up to 50 million EUR in growth companies disrupting the energy industry and accelerating the industry-wide transformation.[13] Helen Ventures is an interesting initiative for Helen to pursue its strategy of smart and low-carbon energy system in collaboration with start-ups and customers. In the food sector, a new venture capital fund called **Nordic FoodTech VC** was launched in 2019. Fund is the first thematic fund focusing on food in the Nordics. Nordic FoodTech aims to invest in transformative companies, especially early-stage technology companies, in the food sector in Finland, other Nordic countries and in the Baltic countries. The fund has raised over 24 million EUR to start its first round of investments. [14]

Currently the Finnish private equity and venture capital sector sees increasingly the opportunities to invest in companies with positive environmental and social impacts. **However, thematic funds (or impact funds) are still rare at Finnish private equity field.** Helen Ventures and Nordic FoodTech VC are interesting openings to enable equity flow to certain SDG relevant industries, in this case energy and food sector. In the future, the emergence of new thematic or impact funds could support the creation of healthy sustainable finance ecosystems in Finland.

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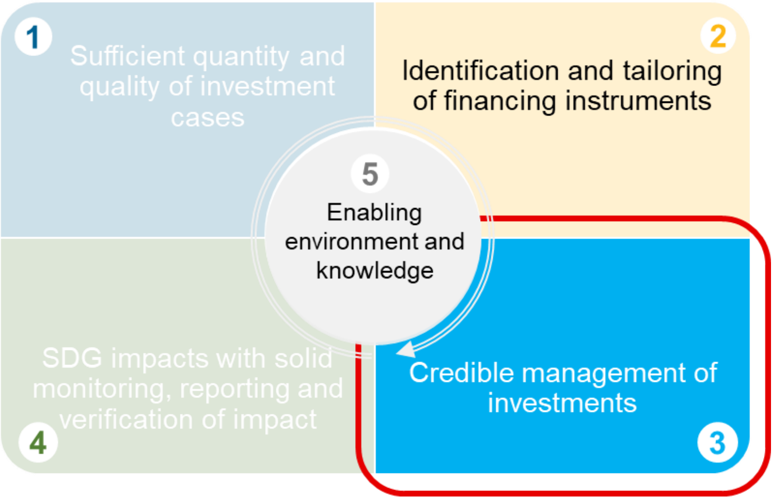
[11] https://tem.fi/en/-/ilmastorahasto-oy-to-promote-low-carbon-economy-and-digitalisation
[12] https://tem.fi/documents/1410877/16402203/IlmastorahastoOy_27102020.pdf/0e196e8c-3b10-c85e-ea0d-dc86a6e3ff54/IlmastorahastoOy_27102020.pdf?t=1603779520799 (in Finnish)
[13] https://www.helen.fi/en/news/2019/ventures
[14] https://news.cision.com/fi/nordic-foodtech/r/pohjoismaiden-ensimmainen-ruokajarjestelmaa-uudistaviin-teknologiayrityksiin-sijoittava-rahasto-tule,c3089685

Goal 3. Credible management of investments



A steadily increasing number of Finnish actors are building a track record in managing SDG aligned finance. However, the expertise remains rather scattered and siloed in several different organisations. Targeted efforts are needed to strengthen the expertise and share lessons learned, to help build overall credibility in the management capacity specifically related to private finance mobilized for SDG investments. In addition to the rapidly increasing interest in impact investing, there is also potential for building broader awareness of the empirical evidence gained related to the positive correlation between solid ESG management and profitability in investments. Hence, more active sharing of knowledge by Finnish fund managers about their track records in SDG aligned investments, in Finland and internationally, is needed.

While the Roadmap process confirms a growing appetite for SDG aligned investments also in Finland, and various Finnish actors are rapidly building in-depth knowledge in SDG investing (Annex 1), the Roadmap highlights the importance of the credibility and reliability of the manager of SDG aligned investments. This requirement is expressed by all investors, but in particular by institutional investors.

The investment teams must have adequate skills and tools, the required instruments, and a track record to convince investors to scale-up their finance for SDG aligned investments. The manager must have extensive and proven experience of carrying out investment schemes, a detailed understanding of the business risks specific to the target countries, and of measuring SDG impact. The increasing amount of sustainability frameworks and step-wise standardization of ESG approaches and sustainability reporting provide valuable tools for disclosing SDG alignment in a credible and transparent manner, helping to build the credibility of management teams. The management team may have these skills or, in the fund of funds model[15], for example, they can be provided by partners.

[15] A fund of funds generally refers to a pooled investment fund that invests in other types of funds, hence its portfolio contains different underlying portfolios of other funds.

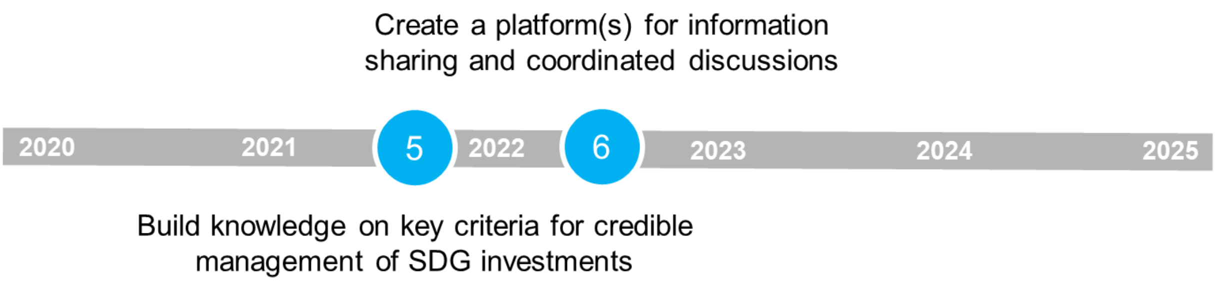
Actions

5. Build knowledge on key criteria for credible management of SDG investments, to support solid growth of SDG aligned investments. Building awareness on key criteria for credible management of SDG aligned investments should among others highlight the manager´s:

- Experience in carrying out SDG aligned (national and/or international) schemes and investments successfully.
- Knowledge and skills to assess business risks in exactly those themes, sectors, and countries of operation where the SDG-targeted financing is being channelled (see also Goal 4).
- Understanding and experience of measuring impact and reporting on the SDGs and capacity to comply with relevant responsibility standards.

6. Create a platform(s) for information sharing and coordinated discussions for SDG investment managers, integrating international partners and best practices. The information sharing can contribute to building and broadening the SDG finance management skills in Finland, strengthening a “race to the top that helps avoid any SDG washing” that could delay required mobilisation of finance. The platform could help identify e.g., areas with skills development needs, potential mandate modifications (e.g. for public sector funding organisations), other public and/or private sector targeted development inputs. (see also Goal 5).

Indicative timeline for actions:



Recent developments – selected highlights

Case example 5. - OP Finnfund Global Impact Fund I

Globally, a trend of new and innovative partnerships between various finance actors can be identified – in various parts of the ecosystem, often with the intention to build better "finance value chains". In Finland, the creation of new collaboration and an impact investing fund, with OP and Finnfund launching **OP Finnfund Global Impact Fund I** [16] is an indication thereof. The fund closed its first round of funding in June 2020, raising 76 million EUR, and a second round of funding of further 58 million EUR in capital in January 2021. The total fund size stands at 135 million EUR.

The fund focuses on three sectors in particular: renewable energy, financial institutions, and sustainable agriculture with the objective to offer an impact investment alternative for the Finnish market. The fund provides an example of a collaboration by financial actors in setting up a vehicle for sustainable impact focused funding, while focusing also on setting a credible management of investments by building on strong existing experiences of different parties.

Case example 6. – Denmark's Green Future Fund

The Danish Government has established Denmark's Green Future Fund with a total capacity of 25 billion DKK (3,4 billion EUR). The Future Fund consists of four Danish financial institutions, including **EKF** (Danish Export Credit Agency), **IFU** (Denmark's investment fund for developing countries), **Vaekstfonden** (the Danish Government's domestic business promotion and investment fund) and the **Danish Green Investment Fund**. [17]

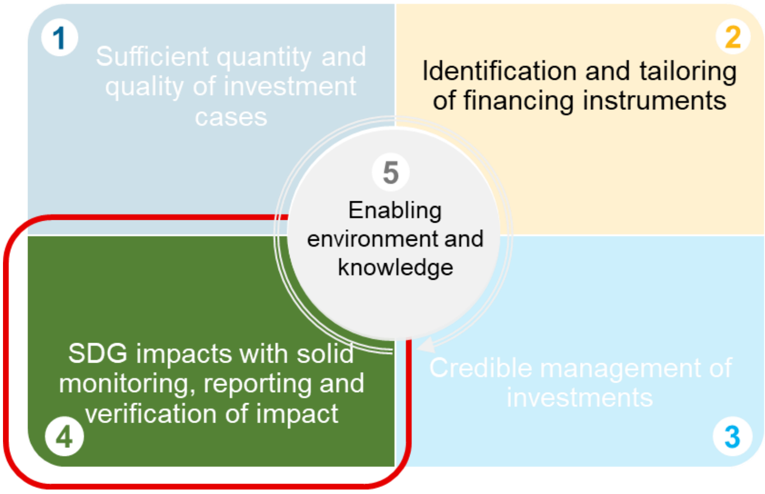
The purpose of the Green Future Fund is, through investments/financing from the Institutions to promote national and global green transition, including the development and diffusion of new technologies, the transformation of energy systems to renewable energy, storage and efficient use of energy, etc., and to promote export of green technologies, including wind and energy efficiency solutions. The investments/financing of the Future Fund will contribute to achieving the Paris Agreement's temperature goals along with realisation of national climate objectives.

The Green Future Fund sets a common vision for the institutions. All four institutions under the Future Fund follow a common policy for financing/investments, setting joint criteria and principles for investments. This approach is expected to improve the sharing of knowledge, experiences and good practices between these institutions, and bring them closer in terms of financing the green transition. The institutions under the Future Fund will coordinate with each other and contribute to an overall exchange of experience and reporting to the Advisory Board of the Future Fund.

Cooperation with private investors is a basic precondition for the fund as the Future Fund aims to mobilise additional private funding. The fund is already up and running, and both the EKF and the Vaekstfonden have already invested through the Future Fund in the development and deployment of greener technology, the transition of energy systems to renewable energy sources and energy efficiency.

[16] https://www.finnfund.fi/en/news/op-and-finnfund-to-establish-finlands-first-global-impact-fund/
[17] https://dgff.dk/wp-content/uploads/2020/12/Politik-DGFF_EN.pdf

Goal 4. SDG impacts with solid monitoring, reporting and verification of impact



Finland is at the forefront of many international sustainability comparisons and close to reaching many of the SDGs, particularly related to social and economic sustainability. However major challenges linked to climate neutrality, biodoversity loss and the unsustainable global ecological and social footprint of Finnish consumption require transformation invesments to ensure Finland lives up to its Agenda2030 commitment.[18] Simultaneously a functional financial ecosystem supporting the SDGs allows Finland to bear its global responsibility and provide Finnish SDG solutions of value-added internationally.

While the operationalization of the SDGs is on the agenda of cities, municipalities, companies, NGOs etc. in Finland and internationally, it is important that the finance sector rapidly strengthens its capacity to identify SDG aligned investment opportunities and its skills to manage investments with SDG potential. Simultaneously the finance sector stakeholders - public, private and NGOs - must strengthen their knowhow in systematically measuring, reporting, and disclosing the SDG impacts achieved, in par with reporting of profitability and investment returns. This is a central element of making the sustainable finance ecosystem work, allowing the finance sector to become an enabler, and stepwise a driver of the required SDG transformations.

Several Finnish finance sector stakeholders, including regulators, public sector finance institutions and funding agencies, development finance organizations, NGOs as well as various private sector actors have recently taken concrete steps amend their SDG impact frameworks (Annex). However, major efforts are still needed in ensuring the quality, comparability, and overall transparency of SDG impact reporting.

[18] Voluntary National Review 2020 FINLAND Report on the Implementation of the 2030 Agenda for Sustainable Development https://sustainabledevelopment.un.org/content/documents/26261VNR_Report_Finland_2020.pdf

Actions

7. Promote national coordination platforms and forums on SDG-aligned investing, where stakeholders can share and compare their experiences, also with international forerunners, highlighting areas (investment themes, technologies, services) where Finnish value-add in SDG investing poses potential. Noting a myriad of impact initiatives and an increasing number of Finnish stakeholders taking SDGs onto their agenda, there is need for:

- Improving national coordination and sharing of lessons learned and practices for measuring and managing impacts for people and the planet.
- Ensuring that big and small enterprises, public and private capital market actors, municipalities, development finance stakeholders etc. recognize common criteria and approaches, helping them to define their respective roles in SDG financing.

8. Strengthen Finnish expertise and country profile as an international leader in impact investing. In addition to financial returns, the assessment of social and environmental impacts of investments requires sufficient interdisciplinary expertise and understanding of “theories of change” to define and assess the SDG impacts. Reaching Finnish excellence requires:

- Systematic integration of SDGs into strategies and ownership steering of public funding organisations. Integrating EU taxonomy requirements and sustainability considerations systematically to all COVID-19 recovery measures provides an important opportunity to accelerate this process and engage private actors.
- Linking systematically with selected international initiatives that are building expertise and consensus to understand and improve investment performance against the SDGs.

Indicative timeline for actions:

Recent developments – selected highlights

Case example 7. – TESI (Finnish Industry Investment)

TESI, a state-owned investment company, is a Finnish private equity and venture capital investor, investing in venture capital and private equity funds and directly in growth companies. Aligned with Tesi's strategy, the company has prioritised making a positive social impact a key driver of its operations. TESI aims to target its impact goals at reaching carbon neutrality, mitigating climate change, and achieving the UN's Agenda 2030 Sustainable Development Goals. The company has selected five impact themes, that will form the framework for guiding how Tesi can support and encourage companies to solve challenges. [19] The five themes cover i) Sustainable production and efficient use of resources, ii) Sustainable consumption and cities, iii) Renewable energy and energy efficiency, iv) Health and wellbeing, and v) Learning and equality.

Case example 8 - The Impact Management Project (IMP)

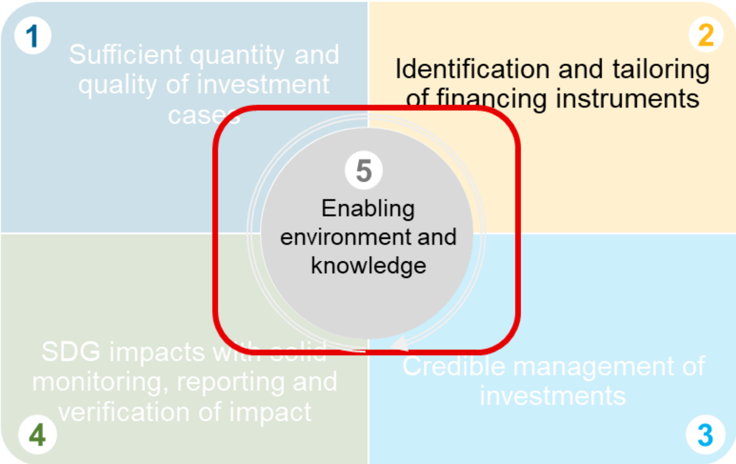
The Impact Management Project (IMP https://impactmanagementproject.com/) provides an international forum for building global consensus on how to measure, manage and report impacts on sustainability. The forum aims to serve enterprises and investors who want to manage environmental, social and governance (ESG) risks, to better understand and improve performance against the SDGs. The IMP brings together a community of over 2,000 practitioners to share best practices, delve into technical issues and identify areas where further consensus is required in impact measurement and management. The IMP is also facilitating network of 16 standard-setting organisations, including GIIN, IFC UNPRI, OECD, UNDP, SASB and UNEP FI, among others. The IMP network is coordinating efforts to provide complete standards for i) processes for managing impacts (practice), ii) frameworks and indicators for measuring and reporting impacts (performance), and ii) valuation for comparing impacts (benchmarking).

Case example 9. - UNDP SDG Impact Hub

UNDP SDG Impact Hub has developed the SDG Impact Standards with the aim to provide a framework for integrating impacts on SDGs into business and investment decision-making, in particular when it comes to private equity funds, bonds and enterprises. Hence the focus of the hub´s work is on the corporate and business sector. In addition, SDG Impact Hub has developed SDG Investor Maps, which provide in-depth reports on SDG-enabling investment opportunities and conditions in target markets and sectors. [20]

[19] https://www.tesi.fi/userassets/uploads/2020/10/TESI_Impact2019.pdf
[20] https://sdgimpact.undp.org/#what-we-do

Goal 5. Enabling environment and knowledge



Putting the Roadmap into action and making the sustainable finance ecosystem truly work for SDGs requires clear and stable policy frameworks that enable and drive, in the short- and long-term, SDG aligned investments. It will also require continuous development of the skills and capacities that allow addressing identified bottlenecks (noting that new ones will also arise). The skills and capacities lay the foundation for the required partnerships - i.e. partnerships for making the financing value-chain work all the way from SDG innovation, through business development to implementation, including national and/or international upscaling of SDG aligned investments.

Raising awareness, systematic education, research[21] and training must reach all key actors in financial, private, public and third-sector industries in a way which eliminates siloes, identifies synergies and, if necessary, helps modify the mandates of the actors and/or helps developed necessary regulation.

In 2021, successful Roadmap implementation must also take careful note of COVID-19 implications and the (new) global economic realities and changes in business environment, likely slowdown in GDP growth rates with probable reflections in investment markets. Implementation will also require closely following the development and implementation of major economic green stimulus packages, but also systematically harness the recovery phase to “build back better”, i.e. integrate EU Taxonomy and SDG alignment into all recovery investment planning and implementation Strengthened knowledge and skills development enables building finance systems for more resilient societies that are able to handle new and emerging sustainability challenges and ensure that policy development are aligned with the global sustainability goals.

[21] Internationally an increasing number of sustainable finance specific education, research and training initiatives are available with Finland overall lagging behind. See e.g., Frankfurt School of Finance & Management (https://www.frankfurt-school.de/en/home/individuals/sustainable-development/expert-sustainable-finance or The Sustainable Finance Lab launched recently in Sweden (https://www.ivl.se/english/ivl/topmenu/press/news-and-press-releases/news/2021-01-28-vinnova-funds-the-sustainable-finance-lab---collaboration-to-transform-financial-markets.html).

Actions

9. Develop a national strategy and plan for integrating sustainable finance into all key education plans and curricula, to secure continued learning, capacity, and skills development, which are needed to put the sustainable finance ecosystem into action

- Making use of internationally acclaimed, in-depth experience in sustainable development related education experiences in Finland.
- Building on existing Finnish higher education and university excellence, in combination with lessons learned from international forerunners on sustainable finance curricula.

10. Integrate SDG finance into national and local planning, governing, and budgeting processes. Building on the consensus that the financial system should serve the Agenda 2030, there are several opportunities to operationalize the required integration e.g., by

- Establishing a task force and/or coordination focal point on SDG investments at the Prime Minister's Office, making use of synergies with on-going SDG budgeting efforts[22]. The focal point could also support and monitor the Roadmap implementation.
- Establishing similar focal points at local, municipal levels, integrating SDG considerations into local planning, investments and procurement decision making. The process of preparing a national Agenda2030 Roadmap for Finland in 2021 could serve as an entry point for launching such task forces/focal points.

Indicative timeline for actions:

[22] Programme of Prime Minister Sanna Marin's Government 10 December *2019 Inclusive and competent Finland*. https://julkaisut.valtioneuvosto.fi/handle/10024/161935. Efforts are coordinated by the Ministry of Finance.

Recent developments – selected highlights

Case example 10. - United Nations Technology Innovation Labs (UNTIL)

United Nations Technology Innovation Labs (UNTIL) in Espoo is focusing on technology projects in four key areas: peace and justice strong institutions, quality education, good health and well-being, responsible consumption and production – circular economy. In 2020, UNTIL organized together with its partners three **SDG Boosters**, bringing together companies, Non-Governmental Organizations (NGOs), financial instruments and thematic experts to develop solutions and projects to address concrete needs identified from developing countries.

Case example 11. - Helsinki Institute of Sustainability Science HELSUS

In recent years, sustainability has increasingly shaped the research and education field in Finland. University of Helsinki has established a cross-faculty research unit in sustainability science, **Helsinki Institute of Sustainability Science HELSUS** [23]**,** providing multidisciplinary research focusing in particular on Urban Studies, Consumption and Production, the Global South, and Arctic contexts. HELSUS presents an interesting example of community and collaboration between university and its diverse group of external partners, aiming to contribute to sustainability transformations of societies.

Case example 12. – Sustainable Finance Platform (the Netherlands)

Pioneering, promoting and partnering: that is the purpose of the **Sustainable Finance Platform** of the Netherlands. The Platform has been established in 2016, initiated by De Nederlandsche Bank - DNB (Dutch Central Bank) and chaired by DNB's Executive Director, and is a cooperative venture of the Dutch Association of Insurers, the Federation of the Dutch Pension Funds, the Dutch Fund and Asset Management Association, the Dutch Banking Association, the Ministry of Finance, the Ministry of Economic Affairs and Climate Policy, the Sustainable Finance Lab and the Dutch Authority for the Financial Markets. It was set to promote and increase awareness of sustainable funding and make the financial sector, supervisory authorities and government ministries work together on sustainability initiatives.

[23] https://www.helsinki.fi/en/helsinki-institute-of-sustainability-science

2.3 A Roadmap in action and gaining momentum

Gaining momentum

Multiple Finnish stakeholders have recently taken pioneering steps to address the SDG financing gap. The SDG finance Roadmap process, launched 2018 in Finland (figure 2) has taken note of these developments, and harnessed and shared initial lessons learned from those actions, with the aim to broaden and deepen the commitment. The required changes in the finance ecosystems are gaining momentum, in Finland and internationally with multiple promising initiatives and concrete steps (Annex 1).

Finnish investors, banks, and asset managers are increasingly recognising both the need to address sustainability risks and challenges more systematically, as well as the need to seize opportunities that SDG aligned investments present. The Roadmap recognizes several promising trends in the Finnish finance landscape, and integrates these developments into its recommendations including

- Impact and thematic investing is getting more attention and new players
- Social Impact Bonds (SIB) & Environmental Impact Bonds (EIB) have emerged as new collaborative instruments between public and private sector
- Institutional investors link SDGs increasingly into their strategy and portfolios
- Sustainable bond and loan market continues to grow
- Public financial institutions continue to develop their sustainability and SDG agendas

While in the past 2-3 years, several Finnish actors have taken important and increasingly ambitious steps in aligning their work with the SDGs, the Roadmap recognizes the need to accelerate action and, in many cases, aim for SDG transformations, beyond incremental sustainability improvements.

Boosting action

An integral part of the action-oriented Roadmap process is to bring stakeholders together for piloting the SDG finance ecosystems, for refining the required sustainable financing solutions, tailoring them, and putting them into test. During 2021-2022, as part of the EU-funded Project "Developing Finland's Sustainable Finance Ecosystems", Roadmap implementation in Finland will be boosted through action within four pilot ecosystems (figure 5), selected through a participatory process and engaging a wide range of stakeholders for joint action and learning.[24]

[24] For further information on Roadmap implementation and progress within the four pilot SDG finance ecosystems see https://tem.fi/en/developing-finlands-sustainable-finance-ecosystems

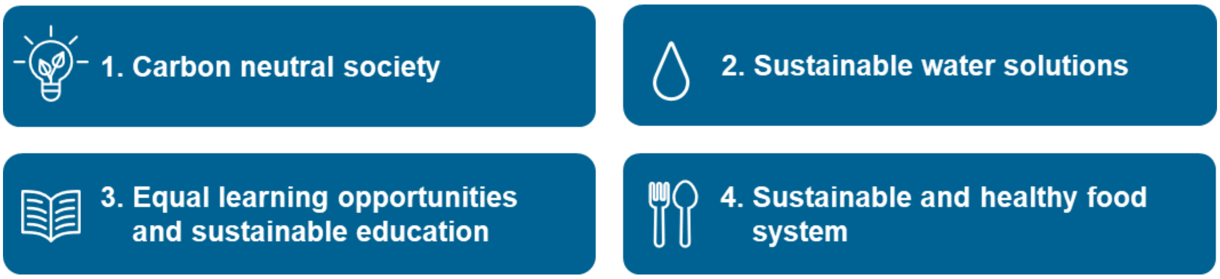


Figure 5. The four pilots address SDG challenges of national priority and international relevance.

The four pilots are complementary in nature, and allow to identify financing bottlenecks and solutions from various perspectives, among other based on selected market focus (local/national/international), types of SDG impacts targeted (including how potential trade-offs are managed), maturity of ecosystems (types of finance and public sector initiatives required), the nature and size of key actors within respective ecosystems (start-ups/SMEs/bigger companies), and the size and type of investors specifically needed for reaching major SDG impacts.

While targeting mobilisation of finance with SDG impacts already within the short- to mid-term, the four pilots allow drawing lessons that can serve the Finnish financing ecosystems (including other sectors and SDG themes) as broadly as possibly, as well as EU peers working currently on these same challenges. Hence the pilot ecosystems provide an opportunity to test and accelerate Roadmap action in multiple manners (Annex 2) and engage further stakeholders to mobilize private finance for SDG-aligned investments.

Linking and harnessing synergies for a decade of action

The Roadmap can be considered as an invitation to all stakeholders that recognize a role for themselves in making SDGs reality. This Roadmap serves as an initial guide and hopefully a source of inspiration for establishing more systematic and holistic approaches, policies, partnerships and concrete measures that will be needed by public sector, private sector as well civil society.

Multiple parallel and interlinked national and international processes offer opportunities for synergies. In Finland, the 2021 national process of developing a Finnish Roadmap for reaching the SDGs overall, among others, represents one rather evident example of synergies to tap into.[25] However, during this decade there is a need to systematically review all key initiatives and investments through a SDG- lens, to ensure that all finance shift from brown to green, and from green to sustainable development, i.e. to SDG-alignment comprehensively. Evidently the Roadmap needs to be regularly refined to help drive action and ensure that all hands are on deck, and no-one is left behind.

[25] https://kestavakehitys.fi/en/frontpage

Annex 1. Setting the scene for the Finnish Roadmap - the SDG finance landscape

A national study (SDG Finance Roadmap, commissioned by the Ministry of Agriculture and Forestry, Finland) on the development of financing models that support the UN SDGs was developed in Finland in 2018-2019. Since the publication of that SDG Finance Roadmap in March 2019, a number of **new initiatives, products, actors, frameworks and standards have emerged both in Finland and internationally**.

A review of most the relevant national and international developments, including public and private initiatives, was carried out during autumn 2020 in order to prepare this Finnish Sustainable Finance Roadmap 2021 and to ensure its implementation considers the most recent development in sustainable finance.

These latest developments, as well as any new initiatives will be monitored during the implementation of the Roadmap to harness emerging networks, initiatives, stakeholder commitments or technology developments for the benefit of the ecosystem piloting and implementation of the Roadmap. This Annex highlights some of the most relevant recent development in sustainable finance.

International Sustainable finance landscape

Increased political commitment and awareness of global sustainability challenges is driving transformational changes in the global financial sector. In the recent years, sustainability has become a common topic in the supervisory agenda[26], including statements and commitments from numerous central banks, regulators and other financial market authorities in relation to net-zero and climate risk analysis, for instance. In addition, the industry itself is proposing solutions and working to build the commitment for more ambitious and systematic sustainability efforts, including for example the launch of Task Force on Climate-related Financial Disclosures (TCFD), created by the Financial Stability Board (FSB), and the Principles for Responsible Banking (PRB), developed by UNEP FI. The work has been consistent throughout the pandemic highlighting the priority of integrating sustainability into the financial sector. Attention has been especially drawn to climate-related factors as well as improving the overall ESG integration systematically into strategies, decision making and operations of financial sector organisations.

A core objective of the recent developments in the financial sector is to increase financial flows towards society's sustainability and low-carbon transition. Green finance has continued to grow year by year and taxonomies are being established in over 20 different jurisdictions including the EU, United Kingdom, Germany, China, Malaysia, South Africa, Australia, New Zeeland and Canada to help investors define 'green' and 'brown' investments. Recent market signals increasingly reflect the ambitions and determination to make financial flows consistent with a pathway toward net-zero economies [27] and societies that are more resilient to the impact of climate change. Most recently, the green and SDG oriented economic stimulus packages linked to pandemic recovery present a global effort to use finance as a

[26] See for example: https://www.ngfs.net/sites/default/files/medias/documents/ngfs_guide_for_supervisors.pdf
[27] https://racetozero.unfccc.int/wp-content/uploads/2021/02/Race-to-Zero-Breakthroughs-Transforming-Our-Systems-Together.pdf

tool to “build back better”. Sustainable recovery from COVID-19 is also strongly driven by the investor community.[28]

Globally, **the momentum for rolling out sustainable finance strategies, instruments and pilot systems has picked up considerably in the last 2-3 years**, with multiple actors within the sustainable finance value chain moving forwards with new (innovative) ideas and channels for scaling up SDG-related finance. Multiple UN-coordinated, (inter)governmental as well as private sector driven initiatives, such as UN Principles for Responsible Investments (UNPRI), IFC Impact Investing Principles, Task Force on Nature-related Financial Disclosures (TNFD) as well as the Coalition of Finance Ministers for Climate Action (and its Helsinki Principles) are addressing critical bottlenecks in the sustainable finance ecosystems and promoting comprehensive approaches for addressing the SDG finance gap. The work programme 2021 has among other identified “greening of financial system Roadmaps” as one of the five priority work areas under Helsinki Principle 5.[29] In November 2020 Australia launched its sustainable finance Roadmap, i.e. “*A plan for aligning Australia´s financial system with a sustainable, resilient and prosperous future for all Australians*.”[30]

As an important part of the sustainable finance landscape, the global impact investing[31] market has continued to grow, standing at 715 billion USD in 2020 and growing 42,4% since 2019, according to the Global Impact Investing Network (GIIN). While the volume of assets is growing, also more and more financial institutions are entering the impact investing market. In recent years, impact investing has been the among fastest growing investment strategies in the sustainable investment universe. Simultaneously, the broader sustainable investing market is getting more mature and becoming mainstream in different geographies. Sustainable investing track record shows increasingly a positive relation between good ESG practices and investment returns and volatility. In 2020, during the COVID-19 pandemic, sustainable funds were outperforming their non-sustainable counterparts, showing the resilience of sustainable investing and ESG strategies. [32] In addition to the growing evidence of the positive relationship between ESG and investment returns, the growth of sustainable investing and impact investing links also to broader changes in the society and values of people – for example, a 2019 Morgan Stanley Institute for Sustainable Investing survey of high-net-worth investors found that 95% of millennials (people born in early-1980s to mid-1990s) were interested in sustainable investing. [33]

[28] https://theinvestoragenda.org/wp-content/uploads/2020/06/Open-letter-to-EU-leaders-from-investors-on-a-sustainable-recovery-from-COVID-19.pdf
[29] https://www.financeministersforclimate.org/news/coalition-finance-ministers-climate-action-puts-forward-its-2021-work-programme
[30] https://www.sustainablefinance.org.au/Roadmap
[31] Impact investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return (GIIN)
[32] https://www.unpri.org/pri-blogs/covid-19-accelerates-esg-trends-global-investors-confirm/6372.article
[33] https://www.morganstanley.com/pub/content/dam/msdotcom/infographics/sustainable-investing/Sustainable_Signals_Individual_Investor_White_Paper_Final.pdf

Spotlight on EU efforts

In Europe the ambitious **EU Action Plan for Sustainable Growth** shapes the financial industry by setting direction and highlighting the urgency to act. Introduced in 2018, the action plan aims to enable the direct and indirect support of financial activities and processes that contribute towards the achievement of the SDGs, as part of the European Union's wider efforts to promote sustainable development.

The European Union has chosen to take a leading role in mitigating climate change by building a financial system that supports sustainable low-carbon growth. In July 2021, the European Commission presented the **Fit-for-55 package**, being a package of legislative proposals and tools for delivering on the emission reduction targets set out in the **EU Climate Law** (adopted by the EU Council in June 2021), as part of **European Green Deal (EGD)**, the EU's roadmap to transform the European economy towards a climate-neutral, green, competitive and inclusive economy. To meet the EU's sustainability goals and (including net-zero emissions by 2050) ensuring citizens' health and well-being from climate and environment-related risks in line with the Paris Agreement, it is necessary to enhance investments towards environmentally sustainable projects and activities.

The EGD recognises that achieving these goals is an investment challenge with the need for the mobilisation of public and private financing. Reaching the revised 2030 climate and energy targets require additional investments of well above 260 billion EUR a year by 2030. The accompanying **European Green Deal Investment Plan** aims to mobilise private funds using mechanisms such as the **InvestEU Programme**, which uses guarantees from the EU budget to crowd-in private and commercial investors, supporting sustainable investments.

To ensure the effectiveness of this investment plan, there is a need for further transformation of the financial sector to provide investors with a **financial framework that enables and encourages a shift from short-termism to long-termism** and greater consideration of material climate and ESG risks. As a result, the European Commission adopted a **Renewed European Sustainable Finance Strategy** in July 2021, building on the 2018 Action Plan on Sustainable Finance to enable this transformation. The renewed strategy is a new major milestone in setting a shared vision of the finance industry of the future, aligned with the Paris Agreement and the SDGs.

An important part of the sustainable finance strategy is the **EU Taxonomy for sustainable activities**, which provides a tool for investors, issuers and other stakeholders by aiming to create a more harmonized classification system on what can be considered an environmentally sustainable economic activity.

Financial market participants will be required to complete their first set of disclosures under the **EU Sustainable Finance Disclosure Regulation (SFDR)**, for sustainability-related disclosures in the financial services sector, as well as disclosures required under the Taxonomy Regulation. The latter requires disclosure against the EU Taxonomy, as set out in the Delegated Act supplementing Article 8 of the Taxonomy Regulation, covering activities that substantially contribute to the climate-related sustainability objectives as per the **Climate Delegated Act** by the end of 2022, although limited to certain elements and based on qualitative reporting due to the entry into force of the Climate Delegated Act and material difficulties to assess compliance of economic activities in 2022 with technical screening criteria laid down in that Delegated Regulation for the previous reporting year. However, this still implies that by the end of 2022, financial market participants would need to assess and qualitatively report whether its investments are Taxonomy-aligned.

The development of technical screening criteria for the **Environmental Delegated Act** is currently in progress and will be adopted at a later stage. Moreover, a **Social Taxonomy** will be developed during 2021 and 2022 as well, next to the fact that a **Taxonomy extension options to support economic transition** are being explored.

Figure A1. presents some of the recent European policy and regulative developments within the sustainable finance landscape.

Recent European policy and regulative developments within the sustainable finance landscape

The European Green Deal
Plan to boost the efficient use of resources by moving to a clean, circular economy and to restore biodiversity and cut pollution.

Action Plan on Sustainable Finance
Enable the direct and indirect support of financial activities and processes that contribute towards the achievement of the SDGs.

Europe's Renewed Sustainable Finance Strategy
A strong foundation to enable sustainable investment and integrate climate and financial risks into the financial system.

Platform on Sustainable Finance
Assist the Commission in the development of a unified classification system for sustainable economic activities.

EU Taxonomy on Sustainable Finance
A list of economic activities, which have the potential to make a substantial contribution to climate change mitigation or climate change adaptation.

EU Green stimulus
NextGenerationEU is part of EU's recovery plan, including a Recovery and Resilience Facility (RRF) of 672.5 billion EUR, of which a large share is dedicated to projects that help the climate.

Figure A1. Summary of European policy and regulative developments.

Finnish Sustainable finance landscape

The enabling environment of the Finnish financial ecosystem is changing, driven among other by EU-level regulatory development, and the broader international commitment of over 190 nations to Agenda 2030. In addition, the growing pressure and market demand for sustainable financing products and services from customers, competitors and other stakeholders drive a sustainability transformation in the financial sector.

Finnish investors, banks, and asset managers are increasingly recognising both the need address sustainability risks and challenges more systematically, as well as the need to seize opportunities that SDG aligned investments present. Hence there is increasing readiness within the Finnish finance sector to simultaneously:

1. Enable and accelerate financing towards sustainability transition and SDGs – while identifying new business opportunities.
2. Protect investment portfolios and balance sheets from major uncertainty and risks caused among other by advancing climate change and biodiversity loss.

Building on the identified opportunities, increasing the financial flows and enabling new sources and combinations of financing, both public and private, is at the heart of building the sustainable finance ecosystem in Finland. At the same time, it is important that financial actors increase their understanding of sustainability related risks and themes, among other related to lacking social equality and decent work, climate change, loss of biodiversity[34] and ecosystem services [35], in order to future-proof their investment portfolios and balance sheets in a changing environment.

Many industries currently undergo a drastic sustainability transformation, changing the underlying business models of companies in different sectors. At the same time, a growing number of innovative companies are focusing on providing solutions to the global SDG challenges – ranging from the energy transformation to sustainable food systems. To grow and scale (both nationally and globally), these companies and business ecosystems need an access to sufficient funding and expertise. For the financial sector, sustainable transformation and the disruption of business models offers **notable new investment opportunities [36] – and a way to create** real world **environmental and social impact**, both nationally in Finland as well as globally.

In the recent months and years, several Finnish financial institutions have taken important steps to integrate sustainability and impact more holistically into their operations, while

[34] See e.g. Dasgupta, P. (2021), The Economics of Biodiversity: The Dasgupta Review. (London: HM Treasury)
[35] The Millennium Ecosystem Assessment defines 'Ecosystem Services' as "the benefits people derive from ecosystems". For further information, see e.g. https://www.ipbes.net/
[36] See for example: UNDP, "More than philanthropy: SDGs are a $12 trillion opportunity for the private sector" https://www.undp.org/content/undp/en/home/blog/2017/8/25/More-than-philanthropy-SDGs-present-an-estimated-US-12-trillion-in-market-opportunities-for-private-sector-through-inclusive-business.html

setting concrete targets and actions both for their investment activities as well as for own operations. In the following section, a number of these developments are highlighted.

Recent developments in the Finnish sustainable finance landscape

In the past 2-3 years, several Finnish financial sector actors have taken important and more ambitious steps in aligning their work with selected sustainability objectives and SDGs overall. Increasingly, next to the traditional financial dimensions of risk and return, stakeholders are trying to understand, promote and monetize "a third dimension", i.e., positive environmental and/or social impacts enabled by finance. Interesting development trends in the Finnish finance landscape are described below, with the view to serve Roadmap implementation and help refine work within the pilot ecosystems in 2021-2022 with the boost its implementation.

#1 Impact and thematic investing is getting more attention and new players

A major development in the Finnish sustainable finance landscape in the recent years include **impact investing and thematic investing becoming more mainstream.** Asset owners and asset managers have increasingly started to create their offering with an impact investment angle. New impact-oriented initiatives focus on investing both on the international market as well as in Finland, broadening the scope of investment activities aiming to create social and environmental benefits.

Examples of newly established funds include **Taaleri Impact A fund** launched in June 2020, as well as **OP Finnfund Global Impact Fund I** [37], which closed its first round of funding in June 2020, raising 76 million EUR and a second round of further 58 million EUR in capital in January 2021, totalling the fund size at 135 million EUR. In addition, new thematic venture capital funds have been established in Finland: **Helen Ventures** aims to invest up to 50 million euros in growth companies disrupting the energy industry, and in the food sector, a new venture capital fund called **Nordic FoodTech VC** was launched in 2019.

#2 Social Impact Bonds (SIB) & Environmental Impact Bonds (EIB) have emerged as new collaborative instruments between public and private sector

Finland is one of the leading European countries to **pilot and introduce Social Impact Bonds (SIB) as an instrument of outcomes contracting –** presenting a new way of collaboration between the public, private and third sector. As of January 2021, two projects have already been completed in Finland, one promoting wellbeing at work in the public sector, as well as a second one focusing on accelerated employment and integration of immigrants. Currently two SIB projects are underway, and several others in preparation. In addition, **there are two Environmental Impact Bonds (EIB) in preparation**, focusing on recycling of agricultural nutrients and energy efficiency in housing. [38]

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[37] https://www.finnfund.fi/en/news/op-and-finnfund-to-establish-finlands-first-global-impact-fund/
[38] https://tem.fi/documents/1410877/21184793/Centre_SIB+EIB+summary_Nov232020_en.pdf/13e7bbd1-7aab-f314-5b86-7a45b5f21e8a/Centre_SIB+EIB+summary_Nov232020_en.pdf?t=1606890750883

An essential aspect about the SIB model is that the public sector determines the desired outcomes, not the method of service provision, and only pays for verifiably produced outcomes. To support the development of outcomes contracting, **The Centre of Expertise for Impact Investing** launched its operations in January 2020 in Finland, under the Ministry of Economic Affairs and Employment serving the entire public sector.[39], also being available to support the piloting of ecosystems during this project.

#3 Institutional investors link SDGs increasingly into their strategy and portfolios

Banks and institutional investors operating in Finland, including pension funds, have increasingly set ambitions and commitments to address and finance SDGs through their investment and lending activities. Overall, during the past few years major financial sector firms in Finland have taken important steps in integrating sustainable business, SDGs and positive societal contribution as a part of their strategies, business models, as well as portfolios and offerings.

In September 2019, **Varma, a Finnish pension fund**, communicated an update of their equity portfolio to better align investments with Varma's climate targets (e.g. committing to a carbon-neutral investment portfolio by 2035) and the objective of supporting SDGs selected as a priority for Varma's investment activities.[40] Selection of investments considers priority **thematic aspects such as renewable energy, climate change mitigation, responsible consumption and circular economy**.

#4 Sustainable bond and loan market continues to grow

Bond and loan market plays an important role in providing funding for companies and projects that contribute to sustainability. In the previous years, the sustainable loan market has been, both internationally as well as in Finland, driven by the growth of green bonds and loans. However, in the recent years, the market has been broadening towards social bonds as well as sustainability-linked bonds. [41]

Municipality Finance (MuniFin) has been since2016 one of the leading issuers of green bonds and a provider of green finance for its customers in Finland. In late 2020, MuniFin issued its fifth green bond in total, bringing the combined amount of Green bond issuance to approximately 2.0 billion EUR.[42] In addition, **Nordic Investment Bank (NIB)** has been active in the green bond market already since 2011, with its environmental bonds and blue bonds, providing finance to projects in the Nordic and Baltic area. Other financial institutions have issued green bonds lately as well, including **Nordea, OP Financial Group, and Taaleri**. In addition to bond issuances, Finnish corporates have been active in the sustainability-linked

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[39] https://tem.fi/en/tasks-of-the-centre-of-expertise-for-impact-investing
[40] https://www.varma.fi/muut/uutishuone/uutiset/2020-q3/varman-uudistettu-kestavan-kehityksen-osakesalkku-edistaa-ykn-tavoitteita-ja-omia-ilmastotavoitteitaan/
[41] For further information about the sustainable loan market and development of the green bonds, social bonds, and sustainability-linked bonds, see e.g. https://insights.nordea.com/en/sustainability/sustainable-loan-market/
[42] https://www.munifin.fi/whats-new/munifin-returned-to-green-bond-market-with-a-record-55-allocation-to-green-investors/

loan market. Several companies have **linked their debt financing with sustainability goals and targets.**

#5 Public financial institutions continue to develop their sustainability and SDG agendas

Public financing institutions have an important role in providing finance in areas where there is a clear lack of private funding, contributing to well-functioning financial markets. Together public financial institutions and private investors can find risk-return profiles that are attractive for different parties, while improving the financing opportunities and available instruments for the recipients.

In recent years, selected sustainability considerations or more comprehensively SDGs have entered the strategies of public sector funding agencies, and/or organizations that receive public funding. For example, the new strategy of **Business Finland** [43], the Finnish public-sector organization offering innovation funding and internationalization services, places SDGs at the heart of its operations. The Developing Markets Platform (DevPlat)[44], a joint platform of Business Finland and the Ministry for Foreign Affairs launched in 2020 provides SDG aligned funding for companies interested in developing markets and their partners.

Finnfund remains a key Finnish mobiliser of private finance for SDG aligned investments in developing countries with a proven track record in managing investment with impact. With regards to climate change Finnfund is increasing its efforts to also mobilise finance for climate adaptation, a resilience focused market only starting to emerge for private sector actors.[45]

The **Finnish Climate Fund,** which was launched in December 2020 [46] focuses on climate mitigation, accelerating low-carbon transition and digitalization in Finland. The ownership steering of both these organisations are under the Ministry of Economic Affairs and Employment that is promoting the mainstreaming of SDGs.

Finn Church Aid Investments (FCAI), an impact investor specialising in developing countries and fragile states, represents new financing initiatives, enabled by public funding and with the intention to help mobilize private finance for SDG-aligned SME business development.

Nordic finance institutions are in the process of aligning their strategies and investment processes with the SDGs and/or EU taxonomy. From the perspective of the implementation of the Finnish SDG Finance Roadmap, the **Nordic Environment Finance Corporation**

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[43] https://www.businessfinland.fi/en/for-finnish-customers/strategy
[44] . DevPlat provides information, advice, contacts and project funding related to developing markets. The platform supports the development of innovations, knowledge and skills by companies, NGOs, research organisations and other actors in order to promote the wellbeing of poor people in developing countries.
[45] https://www.edfi.eu/news/edfi-climate/
[46]https://tem.fi/en/-/ilmastorahasto-oy-to-promote-low-carbon-economy-and-digitalisation

(NEFCO)[47] , **Nordic Development Fund (NDF)**[48] and the **Nordic Investment Bank (NIB)**[49]**,** all provide interesting financing opportunities for accelerating the uptake of Finnish SDG solutions, in the Nordic but also internationally.

While mainstreaming of SDGs is on-going, many of these processes happen separately. There seem to be important opportunities to share lessons learned in a more coordinated and systematic manner between key public financing institutions, noting well-established ownership steering processes in Finland and a rather limited number of organisations involved.[50] The Roadmap implementation and pilot ecosystems aim to support such collaboration and coordination of public financial institutions in Finland.

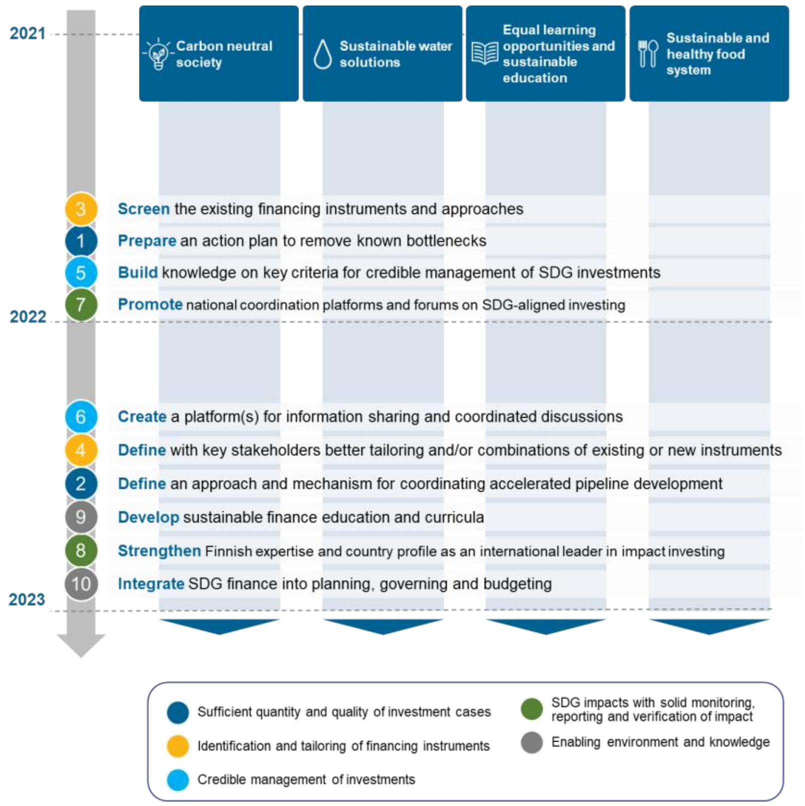
[47] NEFCO finances exclusively environmental and climate-related projects. NEFCO focuses on small and medium-sized projects with demonstration value and scale-up possibilities to make them bankable, which is aligned with the needs highlighted in the Sustainable Finance Roadmap of Finland. https://www.nefco.org/
[48] NDF provides financing on concessionary terms and the primary focus is on climate change mitigation and adaptation activities. https://www.ndf.fi/
[49] NIB focuses on financing projects that improve productivity and benefit the environment in the Nordic–Baltic region https://www.nib.int/
[50] For example in Denmark "The Green Future Fund", established in 2020, brings together existing investors, notably Denmark's Export Credit Agency, the Danish Green Investment Fund, Vaekstfonden and the Investment Fund for Developing Countries (IFU), among other to align investment criteria, improve coordination and increase the capacity to mobilize private sustainable finance. https://www.ekf.dk/en/about-ekf/ekf-s-organisation/news/2020/denmark-s-green-future-fund-is-in-operation

Annex 2. Boosting action through four SDG finance pilot ecosystems

As part of the EU-funded Project "Developing Finland's Sustainable Finance Ecosystems", the Roadmap implementation in Finland is being boosted through action within four pilot ecosystems. The selection of the four ecosystem pilots was based on an initial long list of potential thematic areas, with selection criteria including likely SDG impact, demand, scalability and market potential. Complementary criteria included assessment of the pilots' alignment with just transition principles and the EU taxonomy.

Based on a participatory process, the SDG transformation themes were further refined to have a more targeted focus for each pilot, and optimally serve delivery and learning. Accordingly, the pilots focus on

- Carbon neutral society (case offshore wind power, with primary/initial focus in Finland);
- Sustainable water solutions (case climate smart water solutions enhancing water management, access and security, with focus on developing and emerging markets);
- Equal learning opportunities and sustainable education (case vocational education and training, with focus on developing and emerging markets); and
- Sustainable and healthy food systems (case sustainable protein production, with primary/initial focus in Finland).



The four pilots are complementary in nature, hence will contribute differently to the Roadmap actions (see figure A2), but in most cases help advance all of the 10 recommendation actions in the Roadmap. [51]

Figure A2. The four pilot ecosystems help put the Roadmap into action, with the objective also to engage and boost action from other stakeholders.

[51] For further information on Roadmap implementation and progress within the four pilot SDG finance ecosystems see https://tem.fi/en/developing-finlands-sustainable-finance-ecosystems

About this Roadmap

Reaching the ambitious Sustainable Development Goals (SDGs) by 2030 will require major societal transformations and drastically stepping up the pace of implementation as we enter a decisive decade for people and the planet.

Additional investments worth of several trillion euro are needed on an annual basis until 2030 in order to achieve the SDGs. While these amounts may seem considerable at first glance, they are moderate compared to for example the size of the global bond market or gross world output levels in 2020. This underlines the importance of re-directing capital and ensuring that all finance becomes systematically geared towards SDG alignment during this decade.

This report, ***Finnish Roadmap for financing a decade of SDG action***, is the product of a participatory journey started in Finland already in 2018. Through a collaborative process a number of central drivers and enablers for re-directing and upscaling SDG finance have been identified, and a Roadmap for action elaborated.

The finalisation of this Roadmap as well as the implementation of the Roadmap – among other boosted through four pilot finance ecosystems that promote SDG transformations in Finland and internationally – has been supported by the European Union via the Structural Reform Support Programme (SRSP).

The Roadmap is a call for action and an invitation to all stakeholders to recognize a role for themselves in making the SDGs a reality. It should serve as an initial guide and hopefully a source of inspiration for establishing more systematic, ambitious, and holistic approaches, policies, partnerships, and concrete measures that will be needed by public sector, private sector, and civil society to transform our financial system.

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