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Biodiversity in Nefco's operations

Biodiversity is the variety of all life on earth. This includes all species and ecosystems, as well as the genetic diversity of organisms. Natural capital including biodiversity and the associated ecosystem services, is a crucial basis for enabling the global economy and societies to function. Globally, biological diversity is declining faster than ever before in human history. The rate of species extinctions and ecosystem degradation is accelerating, with grave impacts for people and businesses around the world who rely on the services and benefits provided by nature.

Nearly one million species are at risk of extinction from human activities, and 75% of the land surface has been significantly altered by human actions (IPBES, Global Assessment Report 2019). According to the World Economic Forum's recent Global Risks Report 2022, biodiversity loss is currently considered the third most severe global risk after climate action failure and extreme weather.

The protection of natural resources, species and ecosystems is just as important as tackling the climate crisis. Diverse, well-functioning and resilient ecosystems are better able to provide society with ecosystem services and benefits that support climate change mitigation, adaptation and disaster risk reduction.

In December 2022, we received the encouraging news that the United Nations (UN) Biodiversity Conference in Montréal (COP15) agreed to stop biodiversity loss by 2030. The Global Biodiversity Framework raised interest among private sector participants and for the first time set reporting obligations for large companies and financial institutions. This sent an important signal to the private sector of the need to start assessing and reporting on its impacts and dependencies on nature.

4.1. We analyse both positive and possible adverse impact

Nefco sees that biodiversity loss has the potential to affect its investment portfolio, sectors, and its geographical regions of activity. As a green financier, it is important for Nefco to consider long-term risks related to biodiversity and natural capital. We focus not only on recognising the benefits of projects but also on ensuring that possible environmental risks, such as biodiversity impacts, are sufficiently considered and appropriately mitigated in project design and during operations.

In our new [Environmental and Sustainability Policy](#) we share our stand on unsustainable sectors.

On the exclusion list: Restrictions on forestry and animal husbandry

Land use change has the largest global impact on biodiversity loss, and Nefco has therefore put in place certain limitations on, for example, the forestry and animal husbandry sectors. We want to protect primary and old-growth forests and high conservation value areas and therefore refuse to finance any commercial activities in these areas. We will also not finance any new greenfield livestock husbandry farms.

4.2. Gaining experience through our unique biodiversity pilot programme

Acknowledging the need for action to address the rapid decline in biodiversity, we have decided to strengthen our biodiversity commitments and explore new opportunities for improving biodiversity and managing nature-related risks. Therefore, in 2022 we initiated a unique [Biodiversity Pilot Programme](#) for small and medium-sized companies.

The two-year programme will contribute to knowledge transfer and learning and deliver positive biodiversity impacts and conservation outcomes beyond simple risk management, which is the status quo for the market. The aim is to create a demonstration effect and inspire more companies and project owners to think in terms of nature-based solutions.

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We believe that our work will accelerate biodiversity action. Over the course of 2023, we will support participants of the programme in building sufficient capacity to better address the biodiversity crisis and manage nature-related risks. By assessing their impacts and dependencies on nature, our clients will be able to take the first steps in strengthening their biodiversity management and take action.

At the same time, we will strengthen our own governance on biodiversity and nature to maximise our nature-positive impact. Our approach is to start working with biodiversity management rather than wait for established methodologies. There is no time to lose. Concrete steps, even small ones, are valuable in this process.

How Nefco plans to proceed - our Biodiversity Roadmap

First stage: Awareness and Capacity (2022-2023)

As a first step, we started to develop awareness and capacity to understand economic impacts and dependencies on nature. It is also important to understand spheres of influence, those of both Nefco and our clients, in order to access and use the right tools and methodologies, involve all required stakeholders and follow current regulatory trends. Awareness and capacity building is an ongoing process and will continue throughout the year 2023.

What we have achieved so far

The Nefco Environmental and Policy update, including the exclusion list, has been finalised.

Nefco's biodiversity pilot programme has been established and launched. It was designed to help our clients better understand biodiversity and its implications for business. The first programme seminar was held in December, starting the deep dive into client company engagements.

In addition, Nefco has so far organised two internal capacity building workshops for our investment managers. Nefco has published several articles on biodiversity and increased its public presence on this topic.

What will happen in 2023

We will continue to work with pilot companies, helping both sides to better understand their needs in terms of biodiversity management. Additional internal workshops and pilot company seminars will be held. We shall start building biodiversity management plans for the pilot companies.

Nefco will continue to publish articles and share experiences from the programme.

Second Stage: Portfolio and Process Screening (2023)

Portfolio screening will be an essential step in understanding the impacts and dependencies of Nefco's investments on nature. By investigating each item in the portfolio, Nefco will learn how funds are tied to specific impact drivers and ecosystem services.

The screening will also identify potential high-risk sectors and risk areas within our portfolio.

Third Stage: Prioritisation and Action Plan

Based on the results of the screening, we will identify potential high-risk portfolio assets/projects for further evaluation. Building on the knowledge gained, we aim to develop an internal biodiversity action plan.

Fourth Stage: Portfolio Management and Reporting (Late 2023-2024)

Towards the end of 2023, we will develop and implement biodiversity assessment practices and guiding principles for investment selection. We will incorporate the experience gained from the pilot programme in our investment process. If appropriate, we will also develop actions for potential high-risk assets in our existing portfolio. The new assessment practices will allow us to better identify and avoid risks for future investments.

We will also consider the variety of publicly available biodiversity reporting frameworks. For instance, this could include deciding on whether to follow principles such as the Science-based Targets for Nature and/or the Partnership for Biodiversity-accounting Financials.