



MINISTRY
OF FINANCE

Ministry of Finance
Strategy on Climate and Nature

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We consider societal effects of climate change and biodiversity loss in our work

Climate change and biodiversity loss are among the most significant challenges faced by humankind.

Without addressing these challenges, the wellbeing of generations to come is threatened.

Phenomena

Climate change refers to the increase in the average temperature of the troposphere. According to the Intergovernmental Panel on Climate Change (IPCC), greenhouse gas emissions from human activities have been the most significant cause of climate warming in the last century. The increase in temperature increases extreme weather and changes the distribution of plant and animal species.

Biodiversity loss refers to the decrease and loss of species, habitats and populations of species. Biodiversity loss has unpredictable consequences for humans, resulting from disturbances in food production and the nutrient cycle, for example

Climate change and biodiversity loss contribute to each other, and they should be tackled together. Overconsumption of natural resources is one driver of climate change and biodiversity loss.

Risks and transmission channels on society

Climate change and biodiversity loss affect society in a variety of ways. Although it is difficult to predict the effects, their severity will probably increase as climate change and biodiversity loss progress. The risks of climate change and biodiversity loss are usually divided into two categories.

Floods, droughts and storms are examples of **physical risks** that will increase as extreme weather becomes more common. Gradual change to natural habitats also causes physical risks such as a decrease in the production potential of agricultural land.

Transition risks are associated with the structural transformation of the economy required by the green transition, i.e. to achieve climate and biodiversity targets. Transition risks are caused by uncertainties related to policymaking and technological development. For example, the selected measures can impact the price of high-emission products in ways the companies producing the products were unable to anticipate when investment decisions were made.

Although the physical risks to Finland are smaller than those many other countries face, in our global society, extreme weather in other parts of the world can affect Finland through problems in food production or the supply chains related to production, or through climate refugees, for example. Management of indirect effects is a central driver for Finland to seek measures to combat climate change and biodiversity loss.

We recognise the challenges of climate and nature policies and the commitments serving as frameworks to policy

Finland is committed to several climate and nature policy agreements.

The challenge is to create national and international action plans that enable the externalities of climate change and biodiversity loss to be considered and to ensure intergenerational burden sharing.

Challenges to climate and nature policies

Solutions to the climate and nature crises have been sought in international collaboration for years now; throughout this period, emissions and negative effects have only increased. There are two main causes of this.

The benefits of climate and nature policies are shared, but the costs are not. For example, a factory's operations can pollute the Baltic Sea, and the poor state of the Baltic Sea will affect other business activities, humans and animals, even if it does not affect the polluting factory's business. Such a negative impact on society and the environment is called a **negative externality**.

Future generations will attain most of the benefits of climate and nature policies, but current generations will bear the costs. Action must be taken now, even though the effects will only be felt after a few generations. The costs of deferring taking action are also greater, as this will allow the crisis to increase in scale. It is also expected that the costs of the measures implemented to mitigate and adapt to the effects of climate change and biodiversity loss will not be distributed evenly throughout society. The Government has a key duty to ensure that the transition is carried out fairly. At the same time, the Government must ensure that future generations have the opportunity to make decisions for themselves. This is called **intergenerational burden sharing**.

Finland is committed to several climate and nature policy agreements and principles

The Ministry of Finance is committed to complying with these agreements and policies as part of the Finnish Government. The Ministry contributes to the content of climate and environment agreements as part of the Government and international cooperation.

- The Climate Act states that Finland will be carbon neutral by 2035. The Climate Act also lays down emission targets for 2030, 2040 and 2050. The targets also include adapting to the effects of climate change with national measures by promoting the management of climate risks.
- As an EU Member State, Finland is committed to the EU target of achieving carbon neutrality by 2050. This target is based on the Paris Agreement.
- The UN Convention on Biological Diversity is the most important agreement safeguarding biodiversity. Finland is a party to the Convention and contributes to the fulfilment of the Convention both as an independent party and as an EU Member State.
- As an EU Member State, Finland is committed to stopping biodiversity loss and promoting nature positivity by 2030.
- Ministry of Finance's Strategy on Climate and Nature is in line with the Helsinki Principles of the Coalition of Finance Ministers for Climate Action.
- Ministry of Finance's Strategy on Climate and Nature is in line with the UN's Agenda 2030.

The Ministry of Finance's strategy define the perspective of the preparation of climate and nature policies and the level of ambition and action

Ministry of Finance's Strategy on Climate and Nature supplements the Ministry's general strategy.

The Ministry's vision – 'the Ministry of Finance secures future prospects' – is the basis of all our work related to preparing climate and nature policies and influencing activities.

We aim for a clean, efficient and thriving Finland

We aim for a cleaner, thriving Finland with a sufficient amount of economic resources that are used efficiently to ensure we can sustainably finance the benefits and services the welfare state commitment requires.

Our target and the strategic tasks based on it require us to build sustainable society and identify the factors changing society and the risks associated with these factors.

Climate change and biodiversity loss change our operating environment. They create risks that we must identify and manage. Change also comes with opportunities of which we must be able to take advantage.

Ministry of Finance's Strategy on Climate and Nature steers our focus and defines the principles for our work related to preparing climate and nature policies and level of ambition and action.

We achieve our targets with economic and administrative instruments. Economic and social impact, impact and risk assessment, cost-effectiveness, stability, and fairness are highlighted in our work.

We seek and suggest cross-sectoral solutions, using the economic and administrative instruments available to us.

Our estimates and the measures we recommend are based on research-based knowledge and data.

Strategic tasks of the Ministry of Finance

We ensure stable management of public finances. The economy's generation of income sets the boundaries for stable public finances. We are therefore laying the foundations for sustainable economic growth.

Public administration is part of public finances, and it plays a role in creating the conditions for sustainable economic growth. We improve the efficiency and effectiveness of public administration, as well as its ability for renewal. We build human-oriented digitalisation and promote better utilisation of information in society.

We also create rules that foster trust in the stable, efficient and equal operations of the financial markets.

Clear principles steer our preparation of climate and nature policies and the related influencing activities

The aim of the Ministry of Finance's Strategy on Climate and Nature is to safeguard the freedom of choice of future generations in a state that prospers from the rule of law, and to build an economically, ecologically and socially sustainable Finland and European Union.

We identify and assess risks and opportunities and find solutions.

1. **We identify** the effects and risks of climate change and biodiversity loss, as well as the potential of solutions from the perspectives of economic, financial market, public finance and public administration operators.
2. **We extensively assess** the impact of mitigation and adaptation measures on the economy and public administration, and the assessments are timely in relation to decision-making and implementation.
3. **We find solutions and recommend measures** based on the following principles:
 - I. We seek mechanisms that create conditions for sustainable economic growth and stable public finances.
 - II. We focus on mitigating climate change and halting biodiversity loss in our work and consider what is required for adapting to them.
 - III. We look for solutions that integrate externalities in the market economy.
 - IV. We create conditions for technology neutral solutions.
 - V. We look for solutions that promote the efficient use of resources, and that are cost-effective and fair. Measures are chosen based on the benefits gained compared with the inputs made. The measures with the most significant impact per euro used or other unit of input are chosen first.
4. **With Finnish and international stakeholders, we ensure** that climate and nature questions are considered in decision making and preparatory work related to the economy, financial markets, public finances and public administration.
5. **We ensure** that climate and nature policies take both economic and administrative policy views into account.
6. **We communicate** on our work actively, transparently and in a planned manner, both within the Ministry and to external stakeholders.

We seek solutions from our perspective and with the tools available to us

The Ministry of Finance seeks and suggests cross-sectoral solutions using the economic and administrative instruments available to us.

The Ministry's instruments in climate and nature policies are the following:

- **Economic instruments:** The Ministry is responsible for the preparatory work required for the regulation of the budget, taxation and the financial market. Regulating taxation and the financial market enables the choices of citizens and companies to be steered in line with the targets of climate and nature policies. In spending public finances, it is important to ensure they are allocated effectively and impactfully.
- **Administrative instruments:** The Ministry steers and develops public administration in several ways. The development and steering of administration cover municipalities, wellbeing services counties, and government agencies and corporations. The Ministry of Finance is responsible for the performance and ownership steering in its administrative branch. In addition, the Ministry steers public procurement, the use of government facilities, travel, and public administration information management and ICT operations.

The Ministry's perspective on the economy and public administration and its competence is horizontal and extends across administrative branches. The Ministry takes advantage of its perspective and cross-administrative knowledge when it assesses the financial and administrative effects of measures.

We collaborate with our Finnish and international partners

The Ministry of Finance provides its expertise on the economy and public administration in the preparation of climate and nature policies and related influencing activities as part of the Government and the Finnish and international expert communities.

In Finland, the Ministry's key stakeholders are:

- **Other ministries and Parliament:** The Ministry operates as part of the Government in collaboration with other ministries and Parliament.
- **Municipalities and wellbeing services counties:** The Ministry enables the climate and nature policies of municipalities and wellbeing services counties and collaborates with them. Finnish municipalities carry out a significant share of Finland's climate and environment measures.
- **Citizens:** The Ministry complies with the principles of sound administration and law and ensures opportunities for individuals to participate and contribute to climate and nature policies.
- **Agencies and corporations in the Ministry's administrative branch and other branches:** The Ministry steers the agencies and corporations covered by its administrative branch and collaborates with other agencies, the Bank of Finland, and the Finnish Financial Supervisory Authority.
- **Scientific community:** The Ministry's decisions are based on research-based knowledge and data.
- The Ministry considers the input of **advocacy groups and private-sector operators.**

The Ministry also participates in the activities of international organisations

Acting as part of the international community, Finland has global influence greater than its size, and it can encourage other countries to adopt climate and nature policies.

The key arenas for influencing climate and nature matters are:

- **The European Union's** target of becoming carbon neutral by 2050. The Ministry actively contributes to achieving the EU climate and nature targets.
- **Nordic collaboration** is vital for Finland. The challenges caused by climate change and biodiversity loss are shared by the Nordic countries. It is important to find concrete solutions and tools with our Nordic partners.
- **International partners** such as the Coalition of Finance Ministers for Climate Action and the OECD are important sources of information and influencing fora for Finland.
- **International financial institutions and central banks.** Finland is a shareholder in many international financial institutions such as the World Bank, the International Monetary Fund, the European Investment Bank, and the Nordic Investment Bank. Finland is part of the euro area. The Ministry collaborates both with the Eurosystem and other central banks.

The Strategy on Climate and Nature steers the Ministry of Finance's operations and resources

The target of Ministry of Finance's Strategy on Climate and Nature is to communicate – within the Ministry and externally – our responsibilities and role in the preparation of climate and nature policies and the related influencing activities.

In the Ministry, the themes of the Strategy are related to all Ministry activities and all the work of our personnel.

The Strategy focuses the Ministry's perspective and role in the preparation of climate and nature policies and the related influencing activities.

The following are key in the implementation of the Strategy:

- **We increase our competence** in tasks related to our core duties, e.g. impact assessments. We take these needs into account in recruiting and personal development discussions. We take advantage of both Finnish and international expertise, while ensuring that our own competence is sufficient, especially in relation to our core duties.
- **In resource allocation**, we take the increasing importance of tasks related to considering climate change and biodiversity loss into account.
- **Our leadership and expert hierarchy** includes assigned responsible persons for climate and nature matters.
- We integrate our Climate and Nature Strategy into **performance steering, preparatory work for legislation and measures, and our communications**.
- The Climate and Nature Strategy **action plan** is appended as an independent component of the annual action plan and our performance agreement, as well as performance reviews.
- **Sustainability reporting** in Ministry of Finance and other Government agencies and corporations is extended to cover also measures aimed at restricting climate change and biodiversity loss.



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