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F&F Policy Assessment Methodology

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Introduction

This document describes the F&F Policy Assessment Methodology used by the Forests & Finance Coalition (FFC) to assess the financing and investment policies of financial institutions involved in financing, or investing in, forest-risk commodity sectors in tropical regions (Southeast Asia, Central Africa and South America). This F&F Policy Assessment Methodology is an updated version of the methodology used by FFC in 2018 to assess the main 35 financial institutions financing, or investing in, forest-risk commodity sectors in Southeast Asia.[1]

Section 1 gives an overview of the F&F Policy Assessment Methodology, while section 2 provides more details on the three groups of criteria: Environmental, Social and Governance.

1 Overview of the F&F Policy Assessment Methodology

1.1 Objective

The objective of the F&F Policy Assessment Methodology is to assess the quality and robustness of the financing and investment policies of financial institutions involved in financing, or investing in, forest-risk commodity sectors in tropical regions (Southeast Asia, Central Africa and South America). To avoid getting involved in, or contributing to, deforestation and related environmental, social and governance issues, financial institutions need to develop and implement strict policies, defining clear criteria for financings and/or investments, which are based on international agreements and best practices.

This methodology aims to assess if the banks and investors found to be involved in financing, or investing in, forest-risk commodity sectors in tropical regions have such policies in place. The assessment scores will be published on the Forests & Finance website and will be updated each year. This will allow financial institutions to compare themselves with their peers and it will allow NGOs, media, regulators and other stakeholders to see how the different financial institutions are dealing with deforestation risks and related environmental, social and governmental (ESG) issues.

The methodology is focusing on the contents of the policies of financial institutions. It is not designed to assess in a systematic and comprehensive way if in daily practice these financial institutions do apply their policies strictly and consistently for all their financing and investment decisions related to forest-risk commodity sectors. FFC acknowledges that both sides of the coin are important: without a strong policy, financial institutions will not be able to deal in a systematic way with deforestation and related ESG-risks, but a strong policy is toothless if not implemented rigorously. To assess how financial institutions implement their policies in practice, FFC will publish regular exposure reports which will deal with the financing and investment practices of financial institutions on a case-by-case basis. These reports are therefore complementary to the policy assessments based on the F&F Policy Assessment Methodology.

1.2 Assessment criteria

The assessment criteria included in the F&F Policy Assessment Methodology are based on international agreements, and conventions (mostly from bodies linked to the United Nations, such as the ILO and UNEP) and best practices in the global business community and the financial sector with respect to forest-risk commodities. This follows the approach of the Fair Finance Guide Methodology, published by Fair Finance International.[2] This F&F Policy Assessment Methodology uses a selection of criteria from the FFG Methodology, including backgrounds and justifications, plus some additional ones.

Different from the FFG Methodology, the F&F Policy Assessment Methodology focuses specifically on forest-risk commodity sectors. Therefore, the grouping of criteria and the scoring model are different. The scoring model is explained in section 1.3.

A total of 35 criteria is selected by the Forests & Finance Coalition (FFC). The criteria are grouped on the basis of terminology used widely in the financial sector, where sustainability issues are often referred to as *Environmental, Social and Governance risks (ESG risks)*. In the F&F Policy Assessment Methodology the relevant criteria are therefore grouped in three categories: *Environmental* criteria (section 2.1), *Social* criteria (section 2.2) and *Governance* criteria (section 2.3).

Table 1 lists the criteria selected in the F&F Policy Assessment Methodology for each of these three categories. More details on the criteria are provided in section 2 of this document.

Table 1 Forests & Finance policy assessment criteria grouped by category

No.	Category	Criteria
1	**Environment**	Companies and their suppliers must commit to zero-deforestation and no-conversion of natural forests and ecosystems
2		Companies and their suppliers must not drain or degrade wetlands and peatlands
3		Companies and their suppliers must not convert or degrade High Carbon Stock (HCS) tropical forest areas
4		Companies and their suppliers must not operate in, or have negative impacts on, protected areas
5		Companies and their suppliers must identify and protect High Conservation Value (HCV) areas under their management
6		Companies and their suppliers must not use fire for land clearing activities and fight fires
7		Companies and their suppliers must minimize their impacts on groundwater levels and water quality
8		Companies and their suppliers must not harvest, nor trade in, endangered species and must protect the habitats of endangered species
9		Companies and their suppliers must not use nor introduce genetically modified species or invasive alien species into the environment
10		Companies and their suppliers must minimize or eliminate the use of pesticides
11	**Social**	Companies and their suppliers must respect the right of Indigenous peoples to give or withhold Free, Prior and Informed Consent (FPIC) if they could be affected by planned operations.
12		Companies and their suppliers must respect the right of all communities with customary land rights to give or withhold Free, Prior and Informed Consent (FPIC) if they could be affected by planned operations.
13		Companies and their suppliers must establish human rights due diligence processes and monitoring systems
14		Companies and their suppliers must respect the broader social, economic and cultural rights of communities affected by their operations, including the right to health and the right to an adequate standard of living

No.	Category	Criteria
15		Companies and their suppliers must commit to the resolution of complaints and conflicts through an open, transparent and consultative process
16		Companies and their suppliers must maintain zero tolerance towards violence and the criminalization of land, environmental, and human rights defenders
17		Companies and their suppliers must not engage in forced labour nor in child labour
18		Companies and their suppliers must uphold the rights to freedom of association, collective bargaining and freedom from discrimination
19		Companies and their suppliers must pay at least a living wage
20		Companies and their suppliers must protect the safety and health of workers
21		Companies and their suppliers must have a gender-sensitive zero tolerance policy towards all forms of gender-based discrimination and violence
22	Governance	The financial institution has integrated sustainability objectives in its governance structure
23		The financial institution is transparent on the actions through which its forest-risk policies are implemented and enforced
24		The financial institution applies its forest-risk policies to the entire corporate group
25		The financial institution is transparent on its investments and financings in forest-risk commodity sectors
26		The financial institution discloses its forest-related impacts, including its forest-related financed GHG emissions and its forest footprint
27		The financial institution is transparent on its engagements with companies in forest-risk commodity sectors
28		The financial institution commits to a transparent and effective grievance mechanism regarding its financing of, or investments in, companies in forest-risk commodity sectors
29		Companies and their suppliers must provide proof of legality of their operations and commodity supplies, in particular proof of compliance with all prevailing laws and regulations on land acquisition and land operation
30		Companies and their suppliers must ensure supply chain transparency and traceability
31		Companies and their suppliers must publish geo-referenced maps of all the concession areas and, farms under their management
32		Companies and their suppliers starting new operations or expanding their operations must publish a social and environmental impact assessment
33		Companies and their suppliers must not get engaged in corruption, bribery and financial crimes
34		Companies and their suppliers must comply with the letter and the spirit of the tax laws and regulations in the countries in which they operate and must not set up corporate structures solely for tax avoidance purposes
35		Companies and their suppliers must publish their group structure and country-by-country data

1.3 Scoring model

The policy documents and other relevant publications, such as sustainability reports, of each financial institution are researched to assess if the financial institution commits to the criteria listed in Table 1. For each of the *Environmental*, *Social* and *Governance* criteria, the financial institution is assigned 0, 8.5 or 10 points. In general, the scoring guidelines of the F&F Policy Assessment Methodology for the ESG criteria are as follows:

- **0 points**: the financial institution does not commit to the criteria
- **8.5 points**: the financial institution commits only partially to the criteria, often because the criteria is not applied to the suppliers of the company
- **10 points**: the financial institution commits unequivocally to the criteria and applies it to the company and its suppliers

More specific scoring guidelines for each of the ESG criteria are defined in section 2. After all criteria are assessed, the scores of each financial institution are added up.

1.4 Weighting factors and normalizing scores

1.4.1 Weighting factors for financial services

As some financial institutions might be providing different forms of financing and investments, to which in some cases different policies apply, it is important that the financial institution's forest-risk policies cover all types of financing and investment activities, through which the financial institution is active in forest-risk commodity sectors. **Financing** includes all forms of credits, corporate finance, project finance, trade finance and underwritings. **Investments** include asset management for own account and asset management for the account of clients.

As the scope of a financial institution's policies affects the scoring of all individual criteria as listed in Table 1, this aspect is addressed by weighting factors. The score of the financial institution on a specific criteria is multiplied by a weighting factor which depends on the ratio between financings and investments found for this financial institution in the F&F database. For instance, if 60% of all financings and investments found for a certain financial institution in the F&F database consists of loans and credits, and one of the policies of the financial institution only cover its lending activities, a weighting factor of 60% is used for this policy. If the financial institution also has a separate policy for its investments, a weighting factor of 40% is used for this policy. If a certain criteria is covered in both policies, the scores assigned to both policies for this criteria are first multiplied by the respective weighting factors and then added up. This implies that after application of the weighting factors the maximum score per criteria remains 10.

1.4.2 Normalizing the scores

Adding up the scores per criteria results in total scores per commodity. Combining these with the weighting factors for financial services yields a total score for the entire bank or investor. But the total scores of different financial institutions are not directly comparable as the number of criteria is not necessarily the same for each financial institution, because some criteria can be deemed not to be applicable for a specific financial institution. Therefore, the score of each financial institution is normalized to a score on a scale of 0 to 10 by dividing the score of the financial institution by the maximum score that this financial institution could achieve (maximum 10 points for each relevant criteria), and then multiplying by 10.

1.5 Scores per commodity and overall scores

Some banks or investors might have a (good) policy for one or two forest-risk commodities and no policies for the other forest-risk commodities. Other financial institutions might have one policy which covers all forest-risk commodities. To deal with this differences in scope, each bank and investor will be scored separately for its policies covering the main forest-risk commodities included in the F&F database:

- beef;
- palm oil;
- pulp and paper;
- rubber;

- soy; and
- timber.

Each financial institution will only be assessed for the commodities for which financings or investments are found in the F&F database. This will result in a maximum of six commodity scores on a scale from 0 to 10, plus one overall score (on the same scale) which combines the commodity scores relevant for the bank or investor.

When a bank or investor has one policy which covers all forest-risk commodities, all its commodity scores and the overall score will be identical.

When a financial institution has separate policies for different forest-risk commodities, these policies will be assessed separately. This will result in a number (up to six) of commodity scores. These commodity scores will be combined into an overall score, whereby the breakdown per commodity of the financial institution's financings or investments will be used as weighting factors. This breakdown will be retrieved from the F&F finance database.

2 Background of the assessment criteria

2.1 Environmental criteria

The following ten criteria are included in the F&F Policy Assessment Methodology to assess how the financial institution deals with environmental issues:

1. **Companies and their suppliers must commit to zero-deforestation and no-conversion of natural forests and ecosystems**

   - **Details**

     The financial institution should require that the companies it finances or invests in do not engage in activities that degrade or convert natural ecosystems, including natural forests. This requirement should also apply to the company's subsidiaries and direct and indirect suppliers and should include a credible cut-off date or no cut-off date at all.

     This is in line with the 1992 UN Convention on Biological Diversity (CBD), which demands that each member state establishes a system to preserve the biodiversity in protected areas, or ensure the protection of ecosystems in other ways. Virtually all countries in the world have signed the convention.[3] The CBD is complemented by the 1982 UN Convention on the Law of the Sea (UNCLOS) [4] that obliges all signatory countries to protect and preserve the biodiversity in ocean areas and the Ramsar Convention on Wetlands[5] which ensures protection and proper management of wetlands.

     One of the Sustainable Development Goals of the United Nations, number 15 of Life on Land, requires: "Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss."[6] The International Finance Corporation's (IFC) Performance Standard 6 concerning Biodiversity Conservation and Sustainable Management of Living Natural Resources determines how companies must operate in order to avoid negative consequences on areas of high biodiversity value, including impact on natural habitats as well as endangered and endemic species.[7]

     In this respect, (sectoral) cut-off dates are important: "The date after which deforestation or conversion renders a given production area non-compliant with no-deforestation or no-conversion commitments." This means that companies are not only expected not to be involved in deforestation or conversion themselves, but they are also expected not to undertake any activity in areas which were deforested or converted (by others) after the cut-off date. In its policy, the financial institution should define a credible cut-off date or no cut-off date at all. A cut-off date is credible when it is in line with existing sectoral cut-off dates, not later than 2020 (for no-deforestation) and as early as possible and pre-dating the date on which the commitment was made (for no-conversion).[8]

- **Scoring**

   0. The financial institution has no policy on the protection of natural ecosystems.
   8.5. The financial institution has a policy which requires companies not to contribute to conversion or degradation of natural ecosystems, but the policy makes exceptions (for instance for minor forms of degradation or for direct and indirect suppliers) or has set an incredible cut-off date.
   10. The financial institution has a policy which explicitly requires companies and their direct and indirect suppliers not to contribute to conversion or degradation of natural ecosystems (after a credible cut-off date or no cut-off date at all) or requires adherence to international standards which include this requirement.

2. Companies and their suppliers must not drain or degrade wetlands and peatlands

- **Details**

   Peatlands are frequently drained and burned to make room for plantations, often for the production of palm oil and wood fibers for pulp. This generates substantial and sustained CO_2 emissions as peat fires can smoulder for years and have the highest CO_2 production of all fires. Haze caused by peat fires also causes serious long-term health problems for local and regional populations.[9] The standard for the protection and proper management of wetlands is the Ramsar Convention on Wetlands.[10]

   The financial institution should require that companies it finances or invests in do not drain or degrade wetlands and peatlands. Where wetlands are affected by a company's operations, the company should ensure rewetting. These requirements should also apply to the company's subsidiaries and direct and indirect suppliers and should include a credible cut-off date or no cut-off date at all. The company should be expected to collaborate with smallholders and other third party suppliers it is sourcing from, to make sure they will have the knowledge and means to meet this requirement as well.

   Conversion of peatland for agricultural development is seen as unacceptable by the High Carbon Stock Approach[11], in No Deforestation, No Peat, No Exploitation (NDPE) policies[12].

- **Scoring**

   0. The financial institution has no policy on the protection of wetlands and peatlands.
   8.5. The financial institution has a policy on the protection of wetlands, but the policy makes exceptions (for instance for minor forms of degradation or for direct and indirect suppliers), has set an incredible cut-off date or does not mention peatlands explicitly.
   10. The financial institution has a policy which explicitly protects all wetlands and peatlands at any depth (after a credible cut-off date or no cut-off date at all) or requires adherence to international standards which include this requirement.

3. Companies and their suppliers must not convert or degrade High Carbon Stock (HCS) tropical forest areas

- **Details**

   The financial institution should require that companies it finances or invests in do not convert or degrade High Carbon Stock (HCS) tropical forest areas. This requirement should also apply to the company's subsidiaries and direct and indirect suppliers and should include a credible cut-off date or no cut-off date at all. The company should be expected to collaborate with smallholders and other third party suppliers it is sourcing from, to make sure they will have the knowledge and means to meet this requirement as well.

   Conversion of High Carbon Stock (HCS) forest areas for agricultural development is seen as unacceptable by the High Carbon Stock Approach[13] and in No Deforestation, No Peat, No Exploitation (NDPE) policies.[14]

In countries where the HCS approach is being used, the financial institution should require companies and their suppliers to make a HCS assessment. This criteria is not assessed if the financial institution only operates in countries with no national interpretation of the HCS approach (this includes Brazil).

- **Scoring**

0. The financial institution has no policy on the protection of High Carbon Stock (HCS) tropical forest areas.
8.5. The financial institution has a policy on the protection of High Carbon Stock (HCS) tropical forest areas, but the policy makes exceptions (for instance for minor forms of degradation or for direct and indirect suppliers) or has set an incredible cut-off date.
10. The financial institution has a policy which explicitly requires the application of the High Carbon Stock Approach to protect all High Carbon Stock (HCS) tropical forest areas (after a credible cut-off date or no cut-off date at all) in countries with a national HCS interpretation.

4. Companies and their suppliers must not operate in, or have negative impacts on, protected areas

- **Details**

The financial institution should require that companies it finances or invests in do not operate in nationally protected areas, nor in UNESCO World Heritage sites nor in protected areas that fall under the Ramsar Convention on Wetlands or under the Protected Area Management Categories I-VI of the IUCN. Companies should also be required not to cause negative impacts to such protected areas. This requirement should also apply to the company's subsidiaries and direct and indirect suppliers and should include a credible cut-off date or no cut-off date at all.

This requirement is based on the 1972 UNESCO World Heritage Convention[15], the Ramsar Convention on Wetlands[16] and the Protected Area Management Categories of the International Union for Conservation of Nature (IUCN).[17]

The International Finance Corporation's (IFC) Performance Standard 6 concerning Biodiversity Conservation and Sustainable Management of Living Natural Resources determines how companies must operate in order to avoid negative impacts on protected areas.[18] This criteria is also included in FSC certification requirements.

- **Scoring**

0. The financial institution has no policy on the protection of protected areas.
8.5. The financial institution has a policy on the protection of protected areas, but the policy makes exceptions (for instance for minor impacts or for direct and indirect suppliers) or has set an incredible cut-off date.
10. The financial institution has a policy which explicitly requires protection of all protected areas (after a credible cut-off date or no cut-off date at all) or requires adherence to international standards which include this requirement.

5. Companies and their suppliers must identify and protect High Conservation Value (HCV) areas under their management

- **Details**

The financial institution should require that companies it finances or invests in identify and protect High Conservation Value (HCV) areas under their management. This requirement should also apply to the company's subsidiaries and direct and indirect suppliers and should include a credible cut-off date or no cut-off date at all.

This is in line with the 1992 UN Convention on Biological Diversity (CBD), which demands that each member state establishes a system to preserve the biodiversity in protected areas, or ensure the protection of ecosystems in other ways. Virtually all countries in the world have signed the convention.[19] The CBD is complemented by the 1982 UN Convention on the Law of the Sea (UNCLOS) [20] that obliges all signatory countries to protect and preserve the biodiversity in ocean areas and the Ramsar Convention on Wetlands[21] which ensures protection and proper management of wetlands.

The International Finance Corporation's (IFC) Performance Standard 6 concerning Biodiversity Conservation and Sustainable Management of Living Natural Resources determines how companies must operate in order to identify and protect High Conservation Value (HCV) areas under their management.[22]

- **Scoring**

0. The financial institution has no policy on the identification and protection of High Conservation Value (HCV) areas.
8.5. The financial institution has a policy on the identification and protection of High Conservation Value (HCV) areas, but the policy makes exceptions (for instance for minor impacts or for direct and indirect suppliers).
10. The financial institution has a policy which makes explicit that High Conservation Value (HCV) areas need to be identified and protected or requires adherence to international standards which include this requirement.

6. Companies and their suppliers must not use fire for land clearing activities and fight fires

- **Details**

Deforestation activities sometimes cause horrible forest fires. Due to air pollution caused by these fires, people can suffer from respiratory problems - such as asthma, bronchitis and pneumonia - as well as other consequences of the fires, such as eye and skin problems. Most forest fires are caused by the destruction of forests for the purpose of expansion of the large-scale pulp industry and palm oil plantations.[23]

The financial institution should require that companies it finances or invests in do not use fire in their land clearing activities. This requirement should also apply to the company's subcontractors, subsidiaries and to the smallholders and other direct and indirect suppliers it is sourcing from. Exceptions for traditional fire practices used by Indigenous peoples and local communities are acceptable. Companies should also have a fire fighting plan to fight all fires in and around their concessions or on their farms, also when they are not responsible for starting the fire.

- **Scoring**

0. The financial institution has no policy on the use of fire for land clearing.
8.5. The financial institution has a policy on use of fire for land clearing, but the policy makes exceptions (for instance for small fires or for direct and indirect suppliers).
10. The financial institution has a policy which categorically prohibits use of fire for land clearing use and the obligation to fight fires, or requires adherence to international standards which include this prohibition. Exceptions for traditional fire practices used by indigenous peoples and local communities are acceptable.

7. Companies and their suppliers must minimize their impacts on groundwater levels and water quality

- **Details**

If the existing climate change scenario becomes a reality, almost half the world's population will be living in areas of high water stress by 2030. Furthermore, water scarcity in some arid and semi-arid places will cause the displacement of between 24 million and 700 million people.[24] The Pantanal region in Brazil, Paraguay and Bolivia for instance, the world's largest area of tropical wetlands, is reportedly starting to wither. Over the past 15 years, about 2.25 million hectares have been altered under the influence of soy farms and cattle ranches.[25]

The financial institution should require that companies it finances or invests in do minimize their impacts on groundwater levels and water quality, through irrigation systems, draining, pesticides, fertilizers, erosion or other sources. When starting or expanding their operations, companies are expected to conduct water scarcity impact assessments in water scarce regions and - when necessary - put comprehensive mitigation measures in place to address community and ecosystem water requirements. This requirement should also apply to the company's subsidiaries and direct and indirect suppliers.

The urgency of the issue of water scarcity is recently being acknowledged more clearly in the corporate world, among others through the establishment of the UN Global Compact's CEO Water Mandate: a public-private initiative designed to assist companies in the development, implementation and disclosure of water sustainability policies and practices.[26] Together with the United Nations Environment Programme (UNEP), the CEO Water Mandate has published a Guidance on Corporate Water Accounting.[27]

- **Scoring**

0. The financial institution has no policy on water scarcity and quality.
8.5. The financial institution has a policy on water scarcity and quality, but the policy is not very specific on what is expected of companies and/or does not apply to direct and indirect suppliers.
10. The financial institution makes clear that companies and their direct and indirect suppliers must take concrete steps to minimize their impacts on groundwater levels and water quality, or requires adherence to international standards which include this requirement.

8. Companies and their suppliers must not harvest, nor trade in, endangered species and must protect the habitats of endangered species

- **Details**

The financial institution should require that companies it finances or invests in prevent negative impacts on endangered flora and fauna species. Companies must not harvest, or trade in, endangered species and must protect the habitats of endangered species. This requirement should also apply to the company's subsidiaries and direct and indirect suppliers.

The leading inventory of which flora and fauna species can be considered endangered is the IUCN Red List of Threatened Species.[28] The habitats of these endangered species are protected by the 1979 Convention on the Conservation of Migratory Species of Wild Animals[29], as well as other global and regional conventions focussing on the habitats of specific species. The Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) sets stringent conditions for the international trade in all endangered species.[30]

The International Finance Corporation's (IFC) Performance Standard 6 concerning Biodiversity Conservation and Sustainable Management of Living Natural Resources determines how companies must protect the habitats of endangered species and avoid harvesting or trading in endangered species.[31]

- **Scoring**

0. The financial institution has no policy on the protection of endangered species.
8.5. The financial institution has a policy on the protection of endangered species, but the policy only covers trade and not habitat protection or makes exceptions (for instance for minor impacts or for direct and indirect suppliers).
10. The financial institution has a policy which makes explicit that endangered species and their habitats need to be protected or requires adherence to international

standards which include this requirement.

9. **Companies and their suppliers must not use nor introduce genetically modified species or invasive alien species into the environment**

- **Details**

  The financial institution should require that companies it finances or invests in prevent the introduction or use of genetically modified species or invasive alien species (of flora and fauna) in the environment. This requirement should also apply to the company's subsidiaries and direct and indirect suppliers.

  Preventing the introduction of genetically modified species is in line with the 1992 UN Convention on Biological Diversity (CBD), which demands that companies that want to have access to genetic material from abroad have to obtain prior permission from the exporting country and have to make clear agreements for the use of the material. Virtually all countries in the world have signed the convention.[32] The CBD is complemented by the Cartagena Protocol on Biosafety which has developed a framework for the safe handling, transport and use of GMOs that may have a harmful effect on biodiversity and human health and entail trans-boundary risks.[33]

  Preventing the introduction of invasive alien species is included as well in the 1992 UN Convention on Biological Diversity (CBD) and in the International Finance Corporation's (IFC) Performance Standard 6 concerning Biodiversity Conservation and Sustainable Management of Living Natural Resources.[34]

- **Scoring**

  0. The financial institution has no policy on the introduction of genetically modified species or invasive alien species.

  8.5. The financial institution has a policy on the introduction of genetically modified species or invasive alien species, but the policy only covers genetically modified species and not invasive alien species (or vice versa), or makes exceptions (for instance for direct and indirect suppliers or for species which are already widely in use.

  10. The financial institution has a policy which makes explicit that the introduction and use of genetically modified species or invasive alien species is not allowed, or the financial institution requires adherence to international standards which include this prohibition.

10. **Companies and their suppliers must minimize or eliminate the use of pesticides**

- **Details**

  The widespread use of pesticides presents a series of environmental and health risks, such as pollution of water sources and ecosystems by agricultural runoff, the development of pesticide-resistance, and potential health risks for agricultural workers. One particularly significant problem is the impact of broad-spectrum pesticides on beneficial insects and pollinator species. Along with other factors such as loss of biodiversity, habitat change and the varroa mite, pesticide use forms a serious threat to the honeybee. In the last few years, the number of bee colonies has decreased by up to a third and a further decrease could lead to a shortage in pollination with large consequences for agriculture harvest. About ninety agricultural products, accounting for a third of the global food production, depend on animal pollination. Honeybees are the main animal pollinator and are responsible for the majority of this pollination.[35] Research shows that some insecticides can cause a decrease in the production of the number of queen bees and other insecticides negatively influence the number of bees that find their way to their beehive.[36]

  The use of pesticides is limited by various international standards such as the International Code of Conduct on the Distribution and Use of Pesticides of the United Nations Food and Agriculture Organisation (FAO), which sets the standard on the application, processing, and disposal of pesticides.[37] Other relevant standards are the 2001 Stockholm Convention on Persistent Organic Pollutants[38], which focuses on banning Persistent Organic Pollutants (POPs) often used in pesticides, and the 1998 Rotterdam Convention on the Prior Informed Consent Procedure for Certain Hazardous Chemicals and Pesticides in International Trade[39], which determines that certain pesticides and other hazardous chemicals prohibited in their own country may not be exported to other (developing) countries. The World Health Organization (WHO) publishes an authoritative classification of pesticides based on the health risks they pose, the WHO Recommended Classification of Pesticides by Hazard.[40]

The financial institution should require that companies it finances or invests in minimize or eliminate the use of pesticides, in particular of the most toxic and bio-accumulative pesticides. These are WHO Class 1a and 1b pesticides, as well as any pesticides listed and/or proposed for inclusion in Annex III of the Rotterdam Convention such as paraquat, carbofuran, carbosulfan, fenthion formulations, and trichlorfon. This requirement should also apply to the company's subsidiaries and direct and indirect suppliers.

The International Finance Corporation's (IFC) Performance Standard 3 on Resource Efficiency and Pollution Prevention also recommends to avoid or minimize the use of pesticides.[41]

- **Scoring**

0. The financial institution has no policy on the use of pesticides.
8.5. The financial institution has a policy on use of pesticides, but the policy makes exceptions (for instance for certain types of pesticides or for direct and indirect suppliers).
10. The financial institution has a policy which makes explicit that the use of pesticides needs to be minimized or eliminated, or requires adherence to international standards which include this requirement.

2.2 Social criteria

The following eleven criteria are included in the F&F Policy Assessment Methodology to assess how the financial institution deals with social issues:

11. Companies and their suppliers must respect the right of indigenous peoples to give or withhold Free, Prior and Informed Consent (FPIC) if they could be affected by planned operations

- **Details**

The financial institution should require that companies it finances or invests in adhere to the principle of Free, Prior and Informed Consent (FPIC) for indigenous peoples that could be affected by their planned operations. FPIC should be sought when operations are planned on, or in the vicinity of, indigenous lands. This requirement should also apply to the company's subsidiaries and direct and indirect suppliers. Well before any activity starts, indigenous communities need to be given all information related to the planned operation, including names of the operation's proponents and contractors, size and boundaries, maps etc.

The right to give or withhold FPIC for indigenous peoples is firmly rooted in the 2007 UN Declaration on the Rights of Indigenous Peoples (UNDRIP), which sets out the individual and collective rights of indigenous peoples, including their right to their land, habitat and other resources that they traditionally own, cultivate or otherwise use. Indigenous people are guaranteed in the Declaration the right not to be forcibly removed from their lands or territories, and that no relocation shall take place without their Free, Prior and Informed Consent (FPIC) and after agreement on just and fair compensation and, where possible, with the option of return.[42]

This FPIC right for indigenous peoples is further strengthened by ILO Convention no. 169

concerning Indigenous and Tribal Peoples[43] and in the Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forests in the Context of National Food Security (VGGT) of the FAO.[44] It is also recognized in the International Finance Corporation's (IFC) Performance Standard 7 concerning Indigenous Peoples.[45] The High Carbon Stock Approach Social Requirements and Implementation Guidance details best practices for the fulfilment of FPIC rights during new land development involving land use change.

- **Scoring**

0. The financial institution has no policy on the principle of Free, Prior and Informed Consent (FPIC).

8.5. The financial institution requires companies to respect the right of indigenous peoples to give or withhold Free, Prior and Informed Consent (FPIC) if they could be affected by planned operations, or it requires adherence to international standards which include this requirement, but the financial institution does not provide any details or does not mention direct and indirect suppliers.

10. The financial institution requires companies and their direct and indirect suppliers to respect the right of indigenous peoples to give or withhold Free, Prior and Informed Consent (FPIC) of all indigenous peoples if they could be affected by planned operations, or it requires adherence to international standards which include this requirement. The financial institution also clarifies how companies should fulfil FPIC rights, how they should co-design and document the FPIC procedures, and what best practices must be adhered to in forest-risk sectors.

12. Companies and their suppliers must respect the right of all communities with customary land rights to give or withhold Free, Prior and Informed Consent (FPIC) if they could be affected by planned operations

- **Details**

The financial institution should require that companies it finances or invests in respect the right of all communities with customary land rights to give or withhold Free, Prior and Informed Consent (FPIC) if they could be affected by planned operations. Companies must not cause resettlement of people who are dependent for their livelihoods on land affected by the company's operations, whether full or partial, permanent or temporary, physical or economical, without their Free, Prior and Informed Consent. These requirements should also apply to the company's subsidiaries and direct and indirect suppliers.

The extension of FPIC beyond indigenous communities to all affected communities, including communities with customary tenure rights, is an emerging good practice which is also recognized in No Deforestation, No Peat, No Exploitation (NDPE) policies.[46]

- **Scoring**

0. The financial institution has no policy on the rights of land users with customary land rights (other than indigenous peoples).

8.5. The financial institution requires companies to respect the right of all communities with customary land rights to give or withhold Free, Prior and Informed Consent (FPIC) if they could be affected by planned operations, or it requires adherence to international standards which include this requirement, but the financial institution does not provide any details or does not mention direct and indirect suppliers.

10. The financial institution requires companies and their direct and indirect suppliers to respect the right of all communities with customary land rights to give or withhold Free, Prior and Informed Consent (FPIC) of all land users with customary land rights that could be affected by planned operations. The financial institution also clarifies how companies should fulfil FPIC rights, how they should co-design and document the FPIC procedures, and what best practices must be adhered to in forest-risk sectors.

13. **Companies and their suppliers must establish human rights due-diligence processes and monitoring systems**

- **Details**

  The financial institution should require that companies it finances or invests in fully comply with the UN Guiding Principles on Business and Human Rights, which means that companies establish human rights due-diligence processes and monitoring systems. The aim of human rights due diligence and monitoring systems is to assess how the human rights of individuals and communities are affected by their present operations and how they could be affected by their expansion plans. This requirement should also apply to the company's subsidiaries and direct and indirect suppliers.

  This obligation is grounded in the 2011 United Nations Guiding Principles on Business and Human Rights (UNGPs) which clarify that the responsibility to respect human rights is a global standard of expected conduct for all companies, wherever they operate. It exists independently of states' abilities and/or willingness to fulfil their own human rights obligations, and does not diminish those obligations. Furthermore, this responsibility exists over and above compliance with national laws and regulations protecting human rights.

  The responsibility to respect human rights requires that companies:[47]

  - Avoid causing or contributing to adverse human rights impacts through their own activities, and address such impacts when they occur; and
  - Seek to prevent or mitigate adverse human rights impacts that are directly linked to their operations, products or services by their business relationships, even if they have not contributed to those impacts.

  According to Guiding Principle 15 of the UNGPs, in order to meet the responsibility to respect human rights, companies must have in place a *policy commitment* to meet their responsibility to respect human rights and establish a *human rights due-diligence process* to identify, prevent, mitigate and account for how they address their impacts on human rights. Guiding Principles 16 to 24 of the UNGPs provide operational guidance on how the required policies and processes should be put into practice.

  The UNGPs are broadly supported, among others the OECD Guidelines for Multinational Enterprises[48] and the Equator Principles[49] have aligned their human rights recommendations with the UNGPs.

- **Scoring**

  0. The financial institution has no policy on the protection of human rights by the companies they finance or invest in.
  8.5. The financial institution has a policy on human rights, without explicitly requiring that companies and their direct and indirect suppliers establish human rights due-diligence processes and monitoring systems.
  10. The financial institution has a policy which explicitly requires companies and their direct and indirect suppliers to establish human rights due-diligence processes and monitoring systems, or requires adherence to international standards which include this requirement.

14. **Companies and their suppliers must respect the broader social, economic and cultural rights of communities affected by their operations, including the right to health and the right to an adequate standard of living**

- **Details**

  The economic, social and cultural rights of local communities can be seriously affected by the operations of companies in forest-risk sectors, for instance because they lose their livelihoods through land grabbing or their health is affected by the pollution of air, water and land caused by the company's operations. The financial institution should therefore require that companies it finances or invests in respect the broader social, economic and cultural rights of communities affected by their operations, including the right to health and the right to an adequate standard of living. This requirement should also apply to the company's subsidiaries and direct and indirect suppliers.

According to Article 25 of the Universal Declaration of Human Rights (UDHR), "everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control".[50]

Economic, social and cultural rights of communities are further protected by the International Covenant on Economic, Social and Cultural Rights (ICESCR).[51]

- **Scoring**

0. The financial institution has no policy on the protection of economic, social and cultural rights of communities by the companies they finance or invest in.
8.5. The financial institution has a policy on economic, social and cultural rights of communities, but only some rights are mentioned or exceptions are made for direct and indirect suppliers.
10. The financial institution has a policy which explicitly requires companies and their direct and indirect suppliers to respect the economic, social and cultural rights of communities affected by their operations, or requires adherence to international standards which include this requirement.

15. Companies and their suppliers must commit to the resolution of complaints and conflicts through an open, transparent and consultative process

- **Details**

The financial institution should require that companies it finances or invests in fully comply with the UN Guiding Principles on Business and Human Rights (UNGPs), which also means that companies must offer individuals and communities affected by their operations access to remedy. In practice this means that companies must commit to the resolution of complaints and conflicts through an open, transparent and consultative process. This requirement should also apply to the company's subsidiaries and direct and indirect suppliers.

This obligation is grounded in the 2011 United Nations Guiding Principles on Business and Human Rights (UNGPs) which clarify that the responsibility to respect human rights requires that companies seek to prevent or mitigate adverse human rights impacts that are directly linked to their operations, products or services by their business relationships, even if they have not contributed to those impacts.

According to Guiding Principle 15 of the UNGPs companies must have processes to enable the *remediation* of any adverse human rights impacts in place.[52] Guiding Principle 29 therefore companies to establish or participate in effective operational-level grievance mechanisms for individuals and communities who may be adversely impacted. Guiding Principle 31 details the criteria to ensure the effectiveness of grievance mechanisms. It also includes expectation that mechanisms must be:[53]

- Legitimate;
- Accessible;
- Predictable;
- Equitable;
- Transparent;
- Rights-compatible;
- A source of continuous learning, and
- Based on engagement and dialogue.

The UNGPs are broadly supported, among others the OECD Guidelines for Multinational Enterprises[54] and the Equator Principles[55] have aligned their human rights recommendations with the UNGPs.

- **Scoring**

0. The financial institution has no policy on human rights grievance mechanisms.

8.5. The financial institution has a policy on human rights or land rights which refers to "access to remedy", without explicitly requiring that companies and their direct and indirect suppliers commit to the resolution of complaints and conflicts through an open, transparent and consultative process.

10. The financial institution has a policy which explicitly requires companies and their direct and indirect suppliers to commit to the resolution of complaints and conflicts through an open, transparent and consultative process.

16. Companies and their suppliers must maintain zero tolerance towards violence and the criminalization of land, environmental, and human rights defenders

- **Details**

Land, environmental, and human rights defenders active in forest-risk sectors are often threatened, repressed, de-legitimised, criminalised, unrecognised, kidnapped and even killed because of their activities mobilising as individuals, communities, peoples and organisations to protect their lands, territories and the environment. They are named and shamed as 'enemies' of development, and they are falsely labelled as terrorists and criminals.

The financial institution should require that companies it finances or invests in maintain zero tolerance towards threats, violence and the criminalization of land, environmental, and human rights defenders. This requirement should also apply to the company's subsidiaries and direct and indirect suppliers.

The often difficult position of human rights defenders received international recognition by the adoption of the Declaration on Human Rights Defenders by the United Nations in 1998 and the appointment of the UN Special Rapporteur on the situation of human rights defenders in 2000.[56] In November 2019, the Zero Tolerance Initiative released the Geneva Declaration, demanding zero tolerance towards violence and the criminalization of land, environmental, and human rights defenders. This is a global coalition led by indigenous peoples, local community representatives and supportive NGOs working collectively to address the root causes of killings and violence against human rights defenders linked to global supply chains.[57]

- **Scoring**

0. The financial institution has no policy on land, environmental, and human rights defenders.

8.5. The financial institution has a policy on land, environmental, and human rights defenders, without explicitly requiring zero tolerance or without mentioning direct and indirect suppliers.

10. The financial institution has a policy which explicitly requires companies and their direct and indirect suppliers to maintain zero tolerance towards violence and the criminalization of land, environmental, and human rights defenders, or requires adherence to international standards which include this requirement.

17. Companies and their suppliers must not engage in forced labour nor in child labour

- **Details**

The financial institution should require that companies it finances or invests in do not make use of forced labour or child labour in any way. This requirement should also apply to the company's subsidiaries and affiliates, as well as to the smallholders and other direct and indirect suppliers it is sourcing from.

Companies should be expected to take pro-active steps to assess if forced labour and/or child labour is occurring in any way in their operations and their supply chains. For companies operating in or sourcing form Brazil, the starting point for this assessment should be the official government list of companies found to be involved in slave labour.[58] Special attention should be given to (illegal) migrants and refugees, who have a high vulnerability to become victims of human trafficking, modern slavery and forced labour.[59] On the basis of this assessment of the occurrence of forced labour and child labour in their operations and supply chain, companies should detail steps they will take (with their direct and indirect suppliers if relevant) to abolish these practices.

These principles are firmly grounded in the 1998 ILO Declaration on Fundamental Principles and Rights at Work[60] in which the International Labour Organisation (ILO) identified eight of its conventions as “fundamental” conventions. These eight conventions cover four crucial topics, including the elimination of all forms of forced and compulsory labour[61] and the effective abolition of child labour.[62]

The commitment to abolish all forms of forced labour and child labour is supported by many other ESG standards, such as the OECD Guidelines for Multinational Enterprises[63], the International Finance Corporation’s (IFC) Performance Standard 2 concerning Labor and Working Conditions[64] and the UN Global Compact.[65]

- **Scoring**

0. The financial institution has no policy on forced labour and child labour.
8.5. The financial institution has a policy which requires companies not to make use of forced labour and child labour, in their operations and in their supply chains. Or it requires adherence to international standards which include this requirement
10. The financial institution expects companies to take pro-active steps to assess if forced labour or child labour is occurring in any way in their operations and their supply chains, detailing steps they will take (with their direct and indirect suppliers if relevant) to abolish these practices.

18. Companies and their suppliers must uphold the rights to freedom of association, collective bargaining and freedom from discrimination

- **Details**

The financial institution requires companies it finances or invests in to uphold fundamental labour rights as stipulated by the ILO including: the right to freedom of association and the effective recognition of the right to collective bargaining, and the elimination of discrimination in respect of employment and occupation. This requirement should also apply to the company’s subsidiaries and direct and indirect suppliers.

These principles are firmly grounded in the 1998 ILO Declaration on Fundamental Principles and Rights at Work[66] in which the International Labour Organisation (ILO) identified eight of its conventions as “fundamental” conventions. These eight conventions cover four crucial topics, including the freedom of association and the effective recognition of the right to collective bargaining[67] and the elimination of discrimination in respect of employment and occupation.[68]

The commitment to uphold the rights to freedom of association, collective bargaining and freedom from discrimination is supported by many other ESG standards, such as the OECD Guidelines for Multinational Enterprises[69], the International Finance Corporation’s (IFC) Performance Standard 2 concerning Labor and Working Conditions[70] and the UN Global Compact.[71]

- **Scoring**

0. The financial institution has no policy on rights to freedom of association, collective

bargaining and freedom from discrimination.

8.5. The financial institution has a policy on labour rights, but this policy does not mention explicitly the right to freedom of association, the right to collective bargaining and/or the right to freedom from discrimination. Or the policy does not cover direct and indirect suppliers.

10. The financial institution has a policy which explicitly requires companies and their direct and indirect suppliers to uphold the rights to freedom of association, collective bargaining and freedom from discrimination. Or it requires adherence to international standards which include this requirement.

19. Companies and their suppliers must pay at least a living wage

- **Details**

The financial institution should require that companies it finances or invests in pay a living wage to their employees and ensure that their suppliers pay a living wage to their employees. This requirement should also apply to the company's subsidiaries and direct and indirect suppliers.

Workers in many countries are not paid enough to support themselves and their families. While some of these countries do have a legal minimum wage, it is often much lower than a living wage. A living wage is a family income earned within a standard working week, which should be sufficient to meet basic needs, usually conceived of as the ability to obtain adequate food, clean water, shelter, clothes, education, healthcare, transport and energy, and provide some discretionary income.[72]

Declarations of the International Labour Organization (ILO) referring to living wage include the 2017 ILO Tripartite Declaration on Principles concerning Multinational Enterprises and Social Policy[73] and the 2008 ILO Declaration on Social Justice for a Fair Globalization.[74] The Universal Declaration of Human Rights (UDHR) states that "everyone who works has the right to just and favourable remuneration ensuring for himself and his family an existence worthy of human dignity".[75] In addition, the 2011 OECD Guidelines for Multinational Enterprises recommend paying a wage that "should be at least adequate to satisfy the basic needs of the workers and their families".[76]

- **Scoring**

0. The financial institution has no policy on living wage.

8.5. The financial institution has a policy on living wage, but does not clarify that this needs to be earned in a standard working week. Or the financial institution makes exceptions for direct and indirect suppliers.

10. The financial institution has a policy which explicitly requires companies and their direct and indirect suppliers to pay a living wage to their employees and ensure that their suppliers pay a living wage to their employees. Or it requires adherence to international standards which include this requirement.

20. Companies and their suppliers must protect the safety and health of workers

- **Details**

The financial institution should require that companies it finances or invests in to implement all reasonable precautions to protect the health and safety of workers. This requirement should also apply to the company's subsidiaries and affiliates, as well as to the smallholders and other third party suppliers it is sourcing from.

The International Labour Organization (ILO) has asserted the right to a safe and healthy work environment, first in its 1981 Occupational Safety and Health Convention[77] and most recently in 2017 ILO Tripartite Declaration on Principles concerning Multinational Enterprises and Social Policy.[78] The International Finance Corporation (IFC) has covered occupational safety and health in Performance Standard 2 concerning Labor and Working Conditions.[79]

- **Scoring**

0. The financial institution has no policy on occupational safety and health.
8.5. The financial institution has a policy on occupational safety and health, but does not mention the company's direct and indirect suppliers or makes other exceptions.
10. The financial institution has a policy which explicitly requires companies to protect the safety and health of their workers as well as the workers of their direct and indirect suppliers. Or it requires adherence to international standards which include this requirement.

21. Companies and their suppliers must have a gender-sensitive zero tolerance policy towards all forms of gender-based discrimination and violence

- **Details**

The financial institution should require that companies it finances or invests in have a gender-sensitive zero tolerance policy towards all forms of gender-based discrimination, including psychological harm and verbal, physical and sexual harassment and violence. This requirement should also apply to the company's subsidiaries and direct and indirect suppliers.

This requirement is based, among others, on the UN Convention on the Elimination of all forms of Discrimination against Women (CEDAW)[80], various standards of the International Labour Organization (ILO) on gender equality[81] and the UN Beijing Declaration and Platform for Action which states that "removing all the obstacles to women's active participation in all spheres of public and private life through a full and equal share in economic, social, cultural and political decision-making" is fundamental for the achievement of gender equality.[82] The International Finance Corporation (IFC) has covered gender equality in Performance Standard 2 concerning Labor and Working Conditions.[83]

- **Scoring**

0. The financial institution has no policy on gender-based discrimination.
8.5. The financial institution has a policy on gender-based discrimination, but this policy does not apply to the company's direct and indirect suppliers and/or makes other exceptions.
10. The financial institution has a policy which explicitly requires companies and their direct and indirect suppliers to have a gender-sensitive zero tolerance policy towards all forms of gender-based discrimination, including psychological harm and verbal, physical and sexual harassment and violence. Or it requires adherence to international standards which include this requirement.

2.3 Governance criteria

The following thirteen criteria are included in the F&F Policy Assessment Methodology to assess how the financial institution deals with governance issues:

22. The financial institution has integrated sustainability objectives in its governance structure

- **Details**

To ensure that all employees of the financial institution take deforestation and related sustainability seriously and implement and enforce the forest-risk policies of the financial institution in a rigorous way, the financial institution needs to integrate sustainability objectives in its governance structure. This means inter alia that the financial institution has formulated strategic sustainability objectives, has assigned responsibility for oversight of sustainability objectives and risks to a Board member and has integrated clear sustainability targets and incentives in the remuneration structure of the financial institution's employees.

- **Scoring**
  0. The financial institution has no sustainability objectives or does not make clear how these objectives are integrated in its governance structure.
  8.5. The financial institution has made at least one of the following three steps: it has formulated strategic sustainability objectives, and/or it has assigned responsibility for oversight of sustainability objectives and risks to a Board member and/or it has integrated clear sustainability targets and incentives in the remuneration structure of its employees.
  10. The financial institution has made all of the following three steps: it has formulated strategic sustainability objectives, and it has assigned responsibility for oversight of sustainability objectives and risks to a Board member and it has integrated clear sustainability targets and incentives in the remuneration structure of its employees.

23. The financial institution is transparent on the actions through which its forest-risk policies are implemented and enforced

- **Details**

  A financial institution's forest-risk policies are worthless if not implemented and enforced rigorously. The financial institution therefore needs to be transparent on the actions through which its forest-risk policies are implemented and enforced. Such actions need to include:[84]

  - clearly communicating their sustainability expectations to deforestation-risk companies and the general public;
  - screening of all deforestation-risk companies on a regular basis via a credible, transparent natural ecosystem monitoring system;
  - excluding companies from financings and investments if they or their direct and indirect suppliers are systematically involved in deforestation and related harmful impacts and prospects for improvement are low;
  - engaging with deforestation-risk companies to conclude time-bound corrective action plans banning the conversion and degradation of forests from their operations and supply chains, to which the companies commit;
  - formalizing agreements made with deforestation-risk companies in clauses in loan contracts;
  - monitoring the companies' progress with implementing the agreed action plans via credible independent verification systems;
  - encouraging further steps by providing sustainability performance linked loans;
  - voting on deforestation-related shareholder resolutions and voting against board members that refuse to act; and
  - taking collective initiatives with peers, with NGOs, national and local governments and other stakeholders to collectively call upon corporate actors and governments to prevent, cease and remediate deforestation and its effects.

- **Scoring**
  0. The financial institution does not disclose how its forest-risk policies are implemented.
  8.5. The financial institution publishes a general overview of the implementation of its forest-risk policies, in which one to three important actions (as mentioned above) are mentioned.
  10. The financial institution publishes a detailed overview of the implementation of its forest-risk policies, providing details on at least four important actions.

24. The financial institution applies its forest-risk policies to the entire corporate group

- **Details**

To be able to attract financing from financial institutions which have adopted deforestation-risk policies, a company or corporate group active in forest-risk sectors might only look for financings or investments from these financial institutions for specific subsidiaries or projects which meet the criteria of the financial institution. Meanwhile, the companies looking for finance might have other subsidiaries, sister companies or related companies (ultimately owned by the same owners) which do not meet the criteria of the financial institution. The financings or investments by the financial institution will then provide extra capital to the complete corporate group, part of which is not meeting the criteria in the deforestation-risk policies of the financial institution.

Strong deforestation-risk policies should deal with this threat to their credibility and effectiveness, by increasing the scope of their policies to the entire corporate group to which the specific company belongs that they are financing or investing in. This would mean that not only the client or investee company should meet the criteria in the financial institution's deforestation-risk policy, but also its subsidiaries and parent companies, its sister companies and the companies owned or controlled by the same ultimate beneficial owners (UBOs).

- **Scoring**

0. The financial institution is not applying its deforestation-risk policies to the entire corporate group to which the client or investee company belongs.
8.5. The financial institution is applying a significant part of its deforestation-risk policies to the entire corporate group to which the client or investee company belongs.
10. The financial institution is applying its deforestation-risk policies to the entire corporate group to which the client or investee company belongs.

25. The financial institution is transparent on its investments and financings in forest-risk commodity sectors

- **Details**

The financial institution should publish on its website to which companies active in forest-risk commodity sectors (farmers, plantation/concession companies, traders, processors, crushers, refiners, slaughterhouses and consumer-goods companies) it is providing financing or in which it is investing. Forest-risk commodity sectors are: beef, soy, palm oil, timber, pulp and paper, rubber, sugar cane. This transparency should preferably include the name of the company, the sector it is active in, the country and region it operates in and the size of the investment or financing.

As a second-best option, the financial institution can provide an overview in its annual report or on its website of the sectoral and regional breakdown of its financings and investments. Such information is required in indicator FS6 of the Global Reporting Initiative's *G4 Financial Services Sector Disclosure (FSSD)*.[85] If the sector breakdown is sufficiently detailed, for example based on the first four digits of NACE or ISIC, this would give a good indication of the financial institution's exposure to forest-risk commodity sectors.

- **Scoring**

0. The financial institution is not transparent on its investments in, or financings of, companies in forest-risk commodity sectors.
8.5. The financial institution publishes a breakdown of its portfolio by region, size and industry which is detailed enough to get a good indication of the financial institution's exposure to forest-risk commodity sectors.
10. The financial institution publishes the names of companies active in forest-risk commodity sectors to which it is providing financing or in which it is investing.

26. The financial institution discloses its forest-related impacts, including its forest-related financed GHG emissions and its forest footprint

- **Details**

  According to the Intergovernmental Panel on Climate Change (IPCC), agriculture and deforestation (which is in turn largely driven by the expansion of agricultural land) are responsible for around a quarter of global greenhouse gas (GHG) emissions.[86] As financial institutions contribute to deforestation, they are expected to measure and disclose their share of the forest-related GHG emissions emitted by the companies they finance. To do so, the standards of the Greenhouse Gas Protocol (scope 1-3)[87] and the recommendations of the Financial Stability Board's Task Force on Climate-Related Financial Disclosures (TCFD) are relevant.[88] Various methodologies to measure the financed emissions of a financial institution are developed by for instance the Platform Carbon Accounting Financials (PCAF)[89] and the Paris Agreement Climate Transition Assessment (PACTA) project.[90]

  Additionally, financial institutions are expected to assess and publicly disclose the *forest footprint* attributable to their full portfolio, based on a credible methodology. This includes the financial institution's contribution to the destruction of forests and other natural ecosystems by its clients over the period of their business relationship, in addition to the areas that remain at risk within all clients' global forest-risk commodity operations, supply chains and sourcing regions.[91]

- **Scoring**

  0. The financial institution does not disclose its forest-related financed emissions nor its forest footprint.
  8.5. The financial institution discloses a rough estimate, or a calculation for part of its financings, of its forest-related financed emissions or of its forest footprint.
  10. The financial institution discloses a calculation of the forest-related financed GHG emissions (following GHG Protocol scope 1-3) and the forest footprint attributable to its full portfolio, based on a credible methodology.

27. The financial institution is transparent on its engagements with companies in forest-risk commodity sectors

- **Details**

  The financial institution should publish on its website how it interacts with companies active in forest-risk commodity sectors, to make sure that these companies meet the policy requirements of the financial institutions and address problems that might occur.

  This is in line with the G4 Financial Services Sector Disclosure (FSSD) of the Global Reporting Initiative (GRI). These require the financial institution to provide information on its voting practices and on how a financial institution deals with investments that do not (or no longer) meet the policy, the norms, or the contract conditions of the financial institution is now explicitly requested. Financial institutions have to report which action they have taken in these situations (for example engagement or exclusion), whether these actions have been successful and what further steps will be taken.[92]

  Similar requirements are included in OECD's guidelines on *Responsible business conduct for institutional investors*, which explain the application of the *OECD Guidelines for Multinational Enterprises* in the context of responsible investment. The guidelines suggest that the investor's public reporting include information on its voting records, on engagement activities undertaken by the investor, on companies with which the investor has engaged and on the results of engagement with specific companies.[93]

- **Scoring**

  0. The financial institution is not transparent on its engagements with companies in forest-risk commodity sectors.
  8.5. The financial institution publishes information on its engagements with companies in

forest-risk commodity sectors, but important details (names of companies, topics, or results) are missing.
10. The financial institution provides detailed and comprehensive information on its engagements with companies active in forest-risk commodity sectors.

28. The financial institution commits to a transparent and effective grievance mechanism regarding its financing of, or investments in, companies in forest-risk commodity sectors

- **Details**

The financial institution should establish, or participate in, a transparent and effective operational-level grievance mechanisms for individuals and communities that may be adversely impacted by activities of companies in forest-risk sectors which it has financed or invested in. Where state-based non-judicial and judicial grievance mechanisms exist, such as the OECD National Contact Points, the financial institution should commit to respect and cooperate in good faith with these grievance mechanisms when cases that it is connected to are brought to such a mechanism.

According to the Office of the High Commissioner for Human Rights, Guiding Principle 29 of the UN Guiding Principles on Business and Human Rights (UNGPs) expects banks to have grievance mechanisms in place: their own, or grievance mechanisms they participate in or cooperate with. Furthermore, in line with Guiding Principle 22 banks too are expected to take responsibility for enabling remediation to communities and individuals that have been adversely impacted by the activities of companies that are financed by the bank. While operational level grievance mechanisms (either of the bank itself or established by other entities) are one means through which remediation can be provided, some impacts may be best remediated through other legitimate mechanisms, including State-based judicial and non-judicial mechanisms. Banks should respect stakeholder preferences with respect to use of a grievance mechanism or other legitimate processes, and "engage with the latter in good faith".[94]

The OECD National Contact Points can be considered as a State-based non-judicial mechanisms grievance mechanism.[95] Financial institutions should therefore cooperate with OECD National Contact Points if stakeholders prefer to use it as a grievance mechanism.

- **Scoring**

0. The financial institution does not have, or does not participate in, a transparent and effective grievance mechanism and does not commit to State-based grievance mechanisms.
8.5. The financial institution refers complaints to external grievance mechanisms such as the OECD National Contact Points, but does not clearly commit to respect and cooperate in good faith with these grievance mechanisms.
10. The financial institution has established, or participates in, a transparent and effective grievance mechanism, or has committed to respect and cooperate in good faith with State-based grievance mechanisms.

29. Companies and their suppliers must provide proof of legality of their operations and commodity supplies, in particular proof of compliance with all prevailing laws and regulations on land acquisition and land operation

- **Details**

The financial institution should require companies it finances or invests in to (preferably publicly) provide proof of legality of their operations and commodity supplies, in particular proof of compliance with all prevailing laws and regulations on land acquisition and land operation. Regarding their own operations and those of their subsidiaries and affiliates, they should be able to show all the permits which are legally required according to the laws and regulations of the countries they operate in. They should also be able to prove that their commodity suppliers have all the necessary permits and other legal documents related to the commodities they produce and sell.

For example, in Brazil this would require companies to show that they and their direct and indirect suppliers have ownership rights for their operation according to the Cadastro Ambiental Rural (CAR) and that they are complying with the Forest Code (Law no. 12.651). Also, companies should provide proof that their operations and those of their direct and indirect suppliers are not on the embargo-list of the Brazilian Environmental Agency (IBAMA), nor on the official government list of companies found to be involved in slave labour.[96] Also, they should prove that these operations do not overlay with indigenous lands or conservation areas.

Ensuring the legality of timber supplies is the key objective of the Forest Law Enforcement, Governance and Trade (FLEGT) Action Plan adopted in 2004 by the European Union which established a new and innovative approach to prevent illegal logging. Legal agreements within the EU concerning trade and exploitation of raw materials are linked to the governance of the developing countries where these raw materials come from. The action plan describes a series of measures - such as supporting the private industry by keeping illegal timber out of the chain - and it supports measures to prevent investments in illegal logging.[97]

In 2008, the United States was the first to ban the import, sale and trade of illegal timber and other related products. According to the 2008 amendment to the Lacey Act, importers have to indicate the wood species and the country of origin of most wood species, with heavy fines on importing wood products from illegal sources, regardless of whether this is done intentionally or unintentionally.[98]

In 2013 the EU Timber Regulation (EUTR) came into force: “Placing illegally harvested timber and products derived from such timber on the EU market for the first time, is prohibited. EU operators – those who place timber products on the EU market for the first time – are required to exercise ‘due diligence’. Traders – those who buy or sell timber and timber products already on the market – are required to keep information about their suppliers and customers to make timber easily traceable”.[99]

- **Scoring**

0. The financial institution has no policy on the legality of operations and commodity supplies, nor on the compliance with all prevailing laws and regulations on land acquisition and land operation.

8.5. The financial institution has a policy on the legality of operations and commodity supplies, but does not require proof of compliance with all prevailing laws and regulations on land acquisition and land operation.

10. The financial institution has a policy which explicitly requires companies to provide proof of legality of their operations and commodity supplies, in particular proof of compliance with all prevailing laws and regulations on land acquisition and land operation. Or the financial institution requires adherence to international standards which include this requirement.

30. Companies and their suppliers must ensure supply chain transparency and traceability

- **Details**

The financial institution should require that the companies it finances or invests in are transparent on their supply chains and have a time-bound plan to ensure that all the forest-risk commodities they buy, process and/or sell can be traced back to a specific farm, plantation or land-based operation of one of their suppliers. This requirement should also apply to the company’s subsidiaries and direct and indirect suppliers. For companies operating in, or sourcing from, the cattle sector in Brazil, this means that they can provide full traceability through GTAs of all intermediates in the supply chain.

Many companies which have adopted No Deforestation, No Peat, No Exploitation (NDPE) policies have increased their supply chain transparency by publishing detailed lists of their suppliers, including direct suppliers, indirect suppliers with processing facilities, and raw material producers.[100]

- **Scoring**

0. The financial institution has no policy on supply chain transparency and traceability.
8.5. The financial institution has a policy on supply chain transparency and traceability, but does allow exceptions or is not clear about what supply chain transparency and traceability entails.
10. The financial institution has a policy which explicitly requires companies to publicly disclose their full supply chain, ensuring full traceability to their direct and indirect suppliers' farms, plantations or land-based operations. The financial institution requires the company to be able to publicly trace the forest-risk commodities it buys, processes and/or sells back to a specific operation of one of its suppliers.

31. Companies and their suppliers must publish geo-referenced maps of all the concession areas and farms under their management

- **Details**

The financial institution should require companies it finances or invests in to publish geo-referenced concession maps of all the concession areas and farms under control of the company, its subsidiaries and direct and indirect suppliers. These maps should be complemented with information about the locations, hectarage of conservation set-asides, forests, peatlands, community lands and planted areas, and production volumes. Apart from making these maps and the accompanying information available on the internet, companies should also make sure that this information is shared timely and in an appropriate way with indigenous communities and communities with customary land rights which could be affected by the company's operations (see criteria 11 and 12).

- **Scoring**

0. The financial institution has no policy on concession maps.
8.5. The financial institution recommends companies to publish concession maps, but does not require this explicitly or makes exceptions for subsidiaries or for direct and indirect suppliers.
10. The financial institution has a policy which explicitly requires companies to publish geo-referenced maps of all their concession areas and farms under their management, including those of their subsidiaries and direct and indirect suppliers. Or it requires adherence to international standards which include this requirement.

32. Companies starting new operations or expanding their operations must publish a social and environmental impact assessment

- **Details**

The financial institution should require companies it finances or invests in, and which are starting new operations or which are expanding existing operations, to publish an environmental and social impact assessment on the total consequences on biodiversity, water, soil and communities. The assessment should also cover the indirect consequences of the new operation, related to the sourcing from various suppliers. For palm oil, pulp and paper and commodity development in the humid tropics the High Carbon Stock Approach (HCSA) must be applied, and assessments undertaken using the Integrated HCV-HCS Assessment Manual by ALS licensed assessors. Independent smallholders may use the simplified HCSA methodology.

Standards for such impact assessment include the Voluntary Guidelines on Biodiversity-Inclusive Impact Assessments published by the Convention on Biological Diversity.[101]

These guidelines include clear instructions on how nature criteria can be included in environmental impact assessments. Furthermore, the 2004 Akwé: Kon Guidelines set out a guidance for the conduct of cultural, environmental and social impact assessments regarding developments proposed to take place or which are likely to impact on sacred sites and on lands and waters traditionally occupied or used by indigenous and local communities.[102] The Global Reporting Initiative has published GRI 304: Biodiversity in 2016.[103]

- **Scoring**

  0. The financial institution has no policy on social and environmental impact assessments.

  8.5. The financial institution has a policy which expects companies to make social and environmental impact assessments when they are starting new operations or expanding their operations, but the policy does not require companies to publish the outcomes or makes exceptions for certain types of companies or situations.

  10. The financial institution has a policy which explicitly requires companies starting new operations or expanding their operations to publish a social and environmental impact assessment. Or it requires adherence to international standards which include this requirement.

33. Companies and their suppliers must not get engaged in corruption, bribery and financial crimes

- **Details**

Corruption has significant negative political, social and environmental consequences. Politically, corruption forms a large obstacle to developing the rule of law. Government representatives lose their legitimacy when many abuse their office for personal gain. Bribery and corruption undermine the trust of the people in the political system, which leads to frustration and apathy. It clears the way for leaders, whether chosen democratically or not, to appropriate national assets for themselves without supervision. And if corruption is the norm, honest and capable civilians will leave the country.[104] In forest-risk sectors, corruption can serve to obtain concessions, permits and licences, or to avoid government control on relevant laws and regulation. Corruption therefore undermines law enforcement and the protection of social and environmental interests.

The financial institution should require companies it finances or invests in to implement clear anti-corruption and anti-bribery policies which ensure that the company will not get engaged in corruption, bribery and financial crimes. This requirement should also apply to the company's subsidiaries and direct and indirect suppliers.

The main international standards on corruption are the 2004 UN Convention against Corruption (UNCAC) which contains minimum standards in order to prevent corruption as well as money laundering and is signed by 140 nations[105] and the 1999 OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, which obliges countries to make paying bribes to foreign public officials a criminal offence.[106] These standards are further supported by, among others, the OECD Guidelines for Multinational Enterprises[107], the UN Global Compact[108] and Sustainable Development Goal (SDG) 16: Peace, Justice and Strong Institutions. One of the targets of this goal is to substantially reduce corruption and bribery in all their forms. Another target is to develop effective, accountable and transparent institutions at all levels, which also underpins the importance of corruption-free institutions.[109]

- **Scoring**

  0. The financial institution has no policy on the anti-corruption policies of the companies it is financing or investing in.

  8.5. The financial institution has a policy on corruption, but this policy is not very specific on what is expected of the companies it is financing or investing in or does not cover direct and indirect suppliers.

10. The financial institution has a policy which explicitly requires companies and their direct and indirect suppliers to implement clear anti-corruption policies which ensure that the company will not get engaged in corruption, bribery and financial crimes.

34. Companies and their suppliers must comply with the letter and the spirit of the tax laws and regulations in the countries in which they operate and must not set up corporate structures solely for tax avoidance purposes

- **Details**

For each democratic society, tax revenues are essential to finance public provisions such as health care, education, infrastructure and social security. Research shows that a fair system of taxation contributes more to the development of a healthy, democratic society than revenues from development aid or from the export of raw materials. After all, in order to raise taxes, the development of a capable and reliable public administration is required, while conversely civilians that have to pay tax expect a lot more of, and are more involved with, the public administration. Following the adage “No taxation without representation”, a development towards more democracy is often closely related to the striving for higher tax revenues.[110]

The financial institution should require companies it finances or invests in to comply with both the letter and spirit of the tax laws and regulations in the countries in which they operate. Companies should not set up subsidiaries, branches or associates in jurisdictions with no or zero corporate tax or in jurisdictions with harmful corporate tax practices, unless they have substance and their profits are generated from local economic activities. This requirement should also apply to the company’s subsidiaries and direct and indirect suppliers.

Important standards on tax issues are the OECD Action Plan on Base Erosion and Profit Shifting (BEPS), which strives to modernise tax systems and to prevent tax avoidance by multinationals[111], the OECD Guidelines for Multinational Enterprises[112] and the Engagement Guidance on Corporate Tax Responsibility of the Principles for Responsible Investment, providing guidance to investors on why and how to engage with investee companies involved in tax planning.[113]

- **Scoring**

0. The financial institution has no policy on the tax policies of the companies it is financing or investing in.

8.5. The financial institution has a policy on tax evasion and avoidance, but this policy is not very specific on what is expected of the companies it is financing or investing in or does not cover their direct and indirect suppliers.

10. The financial institution has a policy which explicitly requires companies and their direct and indirect suppliers to comply with the letter and spirit of the tax laws and regulations in the countries in which they operate. Or it requires adherence to international standards which include this requirement.

35. Companies and their suppliers must publish their group structure and country-by-country data

- **Details**

  To assess if companies are involved in tax avoidance or tax evasion practices, financial institutions should require companies in forest-risk sectors to publish their full group structure, including indirectly and jointly-owned entities. For every subsidiary, branch, joint venture or affiliate located in jurisdictions with no or zero corporate tax practices or in jurisdictions with harmful corporate tax practices, companies should publish an explanation of the activities, functions and ultimate shareholders. Financial institutions should also require companies in forest-risk sectors to report country-by-country on their revenues, profit, FTEs, subsidies received from governments and payments to governments (e.g. withholding taxes, payments for concessions and company tax). This requirement should also apply to the company's subsidiaries and direct and indirect suppliers.

  In 2016 the European Commission "adopted a proposal for a directive which requires multinational groups to publish a yearly report on profits and tax paid in each country where they are active (country-by-country reporting). This report will enable citizens to assess multinationals' tax strategies and to see how much they contribute to welfare in each country".[114]

  In the G4 Sustainability Reporting Guidelines of the Global Reporting Initiative (GRI) companies are required to report on the "Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments." In this last category it is requested to report on: "all company taxes and related penalties paid at the international, national, and local levels. (..) Report taxes paid by country for organisations operating in more than one country."[115]

- **Scoring**

  0. The financial institution does not require the companies it is financing or investing in to publish their group structure nor country-by-country data.

  8.5. The financial institution has a policy which does require the companies it is financing or investing to publish their group structure or country-by-country data, but without being very specific about the data required or without mentioning the company's direct and indirect suppliers.

  10. The financial institution has a policy which explicitly requires the companies and their direct and indirect suppliers to publish their group structure or country-by-country data, describing specifically which data should be published.

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