

# F&F Policy Assessment Methodology

Version 2023

## Contents

<b>Introduction</b> .....	<b>2</b>
<b>1 Overview of the F&amp;F Policy Assessment Methodology</b> .....	<b>2</b>
1.1 Objective .....	2
1.2 Assessment criteria .....	2
1.3 Scoring model.....	5
1.4 Weighting factors and normalizing scores .....	5
1.4.1 Weighting factors for financings and investments.....	5
1.4.2 Normalizing the scores.....	5
1.5 Scores per commodity and overall scores .....	6
<b>2 Background of the assessment criteria</b> .....	<b>6</b>
2.1 Environmental criteria .....	6
2.2 Social criteria .....	16
2.3 Governance criteria .....	25
2.3.1 Governance of the financial institution.....	25
2.3.2 Governance of financed and investee companies.....	32
<b>3 How to use the assessment form</b> .....	<b>39</b>
<b>4 General guidance on using the F&amp;F Policy Assessment Methodology</b> .....	<b>39</b>
4.1 Application to direct and indirect suppliers.....	39
4.2 Wording of policies .....	40
4.3 Types of financings and investments.....	40
4.3.1 General distinction between financing policies and investment policies .....	40
4.3.2 Scope of financing policy limited to project finance .....	41
4.3.3 Distinction between new and existing clients .....	41
4.4 Internal operations of the financial institution .....	41
<b>5 International standards</b> .....	<b>42</b>
5.1 Standards considered.....	42
5.2 Wording required .....	42
5.3 Which criteria are covered by each standard .....	43
<b>6 Guidance per criteria</b> .....	<b>43</b>
<b>7 Quick checklist</b> .....	<b>62</b>
<b>References</b> .....	<b>64</b>

## 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, deforestation-risk commodity sectors in tropical regions (Southeast Asia, Central Africa and South America). This 2023 version of the 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, deforestation-risk commodity sectors in Southeast Asia<sup>1</sup> and of the 2021 methodology used to assess 200 banks and investors in 2021 and 2022.

## 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, deforestation-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, deforestation-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 deforestation-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 deforestation-risk commodities. This follows the approach of the Fair Finance Guide Methodology, published by Fair Finance International.<sup>2</sup> 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 deforestation-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 38 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 2.2), *Social* criteria (section 2.3) and *Governance* criteria (section 2.4).

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	<b>Environment</b>	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) 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 minimise 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 minimise or eliminate the use of pesticides
11		Companies and their suppliers must minimise pollution caused by their mills and other operations
12		Companies and their suppliers must disclose targets and credible transition plans to mitigate their GHG emissions
13	<b>Social</b>	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.
14		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.
15		Companies and their suppliers must establish human rights due diligence processes and monitoring systems
16		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
17		Companies and their suppliers must commit to the resolution of complaints and disputes through an open, transparent and consultative process
18		Companies and their suppliers must maintain zero tolerance towards violence and the criminalisation of land, environmental, and human rights defenders
19		Companies and their suppliers must not engage in forced labour nor in child labour
20		Companies and their suppliers must uphold the rights to freedom of association, collective bargaining and freedom from discrimination
21		Companies and their suppliers must pay at least a living wage
22		Companies and their suppliers must protect the safety and health of workers
23		Companies and their suppliers must have a gender-sensitive zero-tolerance policy towards all forms of gender-based discrimination and violence
24	<b>Governance (of the financial institution)</b>	The financial institution has integrated sustainability objectives in its governance structure
25		The financial institution is transparent on the actions through which its ESG policies are implemented and enforced
26		The financial institution applies its ESG policies to the entire corporate group to which its client or investee company belongs to
27		The financial institution is transparent on its investments and financings in deforestation-risk sectors
28		The financial institution discloses its financed GHG emissions related to Agriculture, Forestry and Other Land Use
29		The financial institution discloses targets and a credible transition plan to mitigate GHG emissions from Agriculture, Forestry and Land Use across its portfolio
30		The financial institution is transparent on its engagements with companies in deforestation-risk sectors
31		The financial institution commits to a transparent and effective grievance mechanism regarding its financing of, or investments in, companies in deforestation-risk sectors
32	<b>Governance (of companies)</b>	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
33		Companies and their suppliers must ensure supply chain transparency and traceability
34		Companies and their suppliers must publish geo-referenced maps of all the concession areas and farms under their management
35		Companies must publish Environmental and Social Impact Assessments for all their operations
36		Companies and their suppliers must not get engaged in corruption, bribery and financial crimes
37		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 international corporate structures solely for tax avoidance purposes
38		Companies and their suppliers must publish their group structure and country-by-country data

### 1.3 Scoring model

To assess a financial institution against the criteria listed in Table 1, the policy documents and other relevant publications, such as sustainability reports, of the financial institution are researched. For each of the *Environmental*, *Social* and *Governance* criteria the financial institution is assigned 0 to 4 points. The general scoring model of the F&F Policy Assessment Methodology for the ESG criteria is clarified in Table 2.

**Table 2 General scoring model F&F Policy Assessment Methodology**

Points	Assessment
0	The financial institution does not commit to the criteria
3	The financial institution makes a general commitment to the criteria, but this commitment is not very specific on what is expected of companies
5	The financial institution makes a general commitment to the criteria and formulates requirements for companies, but these do not include all elements covered by the criteria or include other exceptions
7	The financial institution commits unequivocally to the criteria and formulates all necessary requirements, but applies it only to its clients or investees and not to their suppliers
10	The financial institution commits unequivocally to the criteria and formulates all necessary requirements, and applies it to its clients or investees and their suppliers

Note: Suppliers are companies and smallholders from which clients or investee source materials for trading or processing.

Table 2 provides the general scoring model. 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 financings and investments

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 deforestation-risk policies cover all types of financing and investment activities, through which the financial institution is active in deforestation-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.

#### 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 deforestation-risk commodities and no policies for the other deforestation-risk commodities. Other financial institutions might have one policy which covers all deforestation-risk commodities. To deal with this differences in scope, each bank and investor will be scored separately for its policies covering the main deforestation-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 deforestation-risk commodities, all its commodity scores and the overall score will be identical.

When a financial institution has separate policies for different deforestation-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 twelve 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

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.<sup>3</sup> The CBD is complemented by the 1982 UN Convention on the Law of the Sea (UNCLOS)<sup>4</sup> that obliges all signatory countries to protect and preserve the biodiversity in ocean areas and the Ramsar Convention on Wetlands<sup>5</sup> 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.”<sup>6</sup> 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.<sup>7</sup>

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).<sup>8</sup>

In April 2023, the European Parliament approved the proposed EU Regulation on deforestation-free supply chains to minimise EU-driven deforestation and forest degradation.<sup>9</sup> All relevant companies will have to conduct strict due diligence if they want to import, sell, or export palm oil, cattle, soy, coffee, cocoa, timber and rubber as well as derived products (such as beef, furniture, or chocolate) in/from the European market.<sup>10</sup> Once formally adopted by the European Council, traders and operators have 18 months to implement the rules.

**Table 3 Scoring table criteria 1**

<b>Points</b>	<b>Assessment</b>
<b>0</b>	The financial institution has no policy on the protection of natural ecosystems
<b>3</b>	The financial institution makes a general commitment to the protection of natural ecosystems, but this commitment is not very specific on what is expected from companies
<b>5</b>	The financial institution 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 has set no cut-off date or an incredible cut-off date
<b>7</b>	The financial institution explicitly requires companies not to contribute to conversion or degradation of natural ecosystems (after a credible cut-off date) or requires adherence to international standards which include this requirement
<b>10</b>	The financial institution explicitly requires companies and its direct and indirect suppliers not to contribute to conversion or degradation of natural ecosystems (after a credible cut-off date)



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

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<sub>2</sub> emissions as peat fires can smoulder for years and have the highest CO<sub>2</sub> production of all fires. Haze caused by peat fires also causes serious long-term health problems for local and regional populations.<sup>11</sup> The standard for the protection and proper management of wetlands is the Ramsar Convention on Wetlands.<sup>12</sup>

The financial institution should require that companies it finances or invests in do not drain or degrade wetlands and peatlands. If companies operate or source from existing plantations that were established on peat or affect wetlands, the company should ensure rewetting.

These requirements should also apply to the company's subsidiaries and direct and indirect suppliers. The requirements should include a credible cut-off date. 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<sup>13</sup>, in No Deforestation, No Peat, No Exploitation (NDPE) policies<sup>14</sup>.

**Table 4 Scoring table criteria 2**

Points	Assessment
0	The financial institution has no policy on the protection of wetlands and peatlands
3	The financial institution makes a general commitment to the protection of wetlands and peatlands, but this commitment is not very specific on what is expected from companies
5	The financial institution has a policy on the protection of wetlands and/or peatlands, but the policy makes exceptions (for instance for minor forms of degradation) or has set an incredible cut-off date or does not mention wetlands or peatlands explicitly
7	The financial institution has a policy which explicitly requires companies to protect all wetlands and peatlands at any depth (after a credible cut-off date), or requires adherence to international standards which include this requirement
10	The financial institution has a policy which explicitly requires companies and their direct and indirect suppliers to protect all wetlands and peatlands at any depth (after a credible cut-off date)

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

The financial institution should require that companies it finances or invests in do not convert or degrade High Carbon Stock (HCS) 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<sup>15</sup> and in No Deforestation, No Peat, No Exploitation (NDPE) policies.<sup>16</sup>

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).



**Table 5 Scoring table criteria 3**

Points	Assessment
0	The financial institution has no policy on the protection of High Carbon Stock (HCS) forest areas
3	The financial institution makes a general commitment to the protection of High Carbon Stock (HCS) forest areas, but the policy is not very specific on what is expected of companies
5	The financial institution has a policy on the protection of High Carbon Stock (HCS) forest areas, but the policy makes exceptions (for instance for minor forms of degradation) or has set an incredible cut-off date or no cut-off date at all
7	The financial institution has a policy which explicitly requires the application of the High Carbon Stock Approach to protect all High Carbon Stock (HCS) forest areas (after a credible cut-off date) in countries with a national HCS interpretation
10	The financial institution has a policy which explicitly requires the application of the High Carbon Stock Approach by the company and its direct and indirect suppliers to protect all High Carbon Stock (HCS) forest areas (after a credible cut-off date) in countries with a national HCS interpretation.

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

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<sup>17</sup>, the Ramsar Convention on Wetlands<sup>18</sup> and the Protected Area Management Categories of the International Union for Conservation of Nature (IUCN).<sup>19</sup> The World Database on Protected Areas (WDPA) is the most comprehensive global database of marine and terrestrial protected areas.<sup>20</sup>

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.<sup>21</sup>

**Table 6 Scoring table criteria 4**

Points	Assessment
0	The financial institution has no policy on the protection of protected areas
3	The financial institution makes a general commitment to the protection of protected areas, but the policy is not very specific on what is expected of companies
5	The financial institution has a policy on the protection of protected areas, but the policy makes exceptions (for instance for minor impacts) or does not include all types of protected areas
7	The financial institution has a policy which explicitly requires protection of all protected areas or requires adherence to international standards which include this requirement
10	The financial institution has a policy which explicitly requires protection of all protected areas by the company and its direct and indirect suppliers

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

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. More information on High Conservation Value areas is available on [hcvnetwork.org](http://hcvnetwork.org).<sup>22</sup>

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.<sup>23</sup> The CBD is complemented by the 1982 UN Convention on the Law of the Sea (UNCLOS)<sup>24</sup> that obliges all signatory countries to protect and preserve the biodiversity in ocean areas and the Ramsar Convention on Wetlands<sup>25</sup> 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.<sup>26</sup>

**Table 7 Scoring table criteria 5**

Points	Assessment
0	The financial institution has no policy on the identification and protection of High Conservation Value (HCV) areas.
3	The financial institution makes a general commitment to the identification and protection of High Conservation Value (HCV) areas, but the policy is not very specific on what is expected of companies
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 certain regions
7	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
10	The financial institution has a policy which makes explicit that High Conservation Value (HCV) areas need to be identified and protected by the company and its direct and indirect suppliers

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

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.<sup>27</sup>

The financial institution should require that companies it finances or invests in do not use fire for the conversion of land, or allow this to take place as a result of their operations or in their supply chains. Companies should also not establish plantations that are prone to fire, such as plantations on peat or large scale eucalyptus plantations in areas with not enough water. 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 can be made for traditional fire practices used by Indigenous peoples and local communities and for cases where there is a scientific consensus that fire is part of the natural dynamics of the ecosystem and the use of fire is essential to maintain the ecosystem.

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.

**Table 8 Scoring table criteria 6**

Points	Assessment
0	The financial institution has no policy on the use of fire for land clearing
3	The financial institution makes a general commitment to avoid the use of fire for land clearing, but the policy is not very specific on what is expected of companies
5	The financial institution has a policy on use of fire for land clearing, but the policy makes exceptions beyond what can be reasonably be allowed, for instance for small fires, or does not mention an obligation to fight fires when they occur
7	The financial institution has a policy which categorically prohibits use of fire for land clearing use, requires not to establish plantations in areas prone to fire and includes the obligation to fight fires, or requires adherence to international standards which include this prohibition. Reasonable exceptions can be allowed
10	The financial institution has a policy which categorically prohibits the use of fire for land clearing use, requires not to establish plantations in areas prone to fire and includes the obligation to fight fires, for the company as well as its direct and indirect suppliers. Reasonable exceptions can be allowed

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

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.<sup>28</sup> 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.<sup>29</sup>

The financial institution should require that companies it finances or invests in do minimise 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.<sup>30</sup> Together with the United Nations Environment Programme (UNEP), the CEO Water Mandate has published a Guidance on Corporate Water Accounting.<sup>31</sup>

**Table 9 Scoring table criteria 7**

Points	Assessment
0	The financial institution has no policy on water scarcity and quality.
3	The financial institution makes a general commitment to preserve water levels and/or water quality, but the policy is not very specific on what is expected of companies
5	The financial institution has a policy on water scarcity or on water quality
7	The financial institution makes clear that companies must take concrete steps to minimise their impacts on groundwater levels and water quality
10	The financial institution makes clear that companies and their direct and indirect suppliers must take concrete steps to minimise 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**

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.<sup>32</sup> 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.<sup>33</sup>

Beyond limiting international trade, it is also important to protect the habitats of endangered species are protected. This is agreed by the 1979 Convention on the Conservation of Migratory Species of Wild Animals<sup>34</sup>, as well as other global and regional conventions focussing on the habitats of specific species. The 1992 UN Convention on Biological Diversity (CBD) demands that countries “promote the protection of ecosystems, natural habitats and the maintenance of viable populations of species in natural surroundings” and “rehabilitate and restore degraded ecosystems and promote the recovery of threatened species”.<sup>35</sup>

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.<sup>36</sup>

**Table 10 Scoring table criteria 8**

Points	Assessment
0	The financial institution has no policy on the protection of endangered species.
3	The financial institution makes a general commitment to the protection of endangered species, but the policy is not very specific on what is expected of companies

Points	Assessment
5	The financial institution has a policy on the protection of endangered species, but the policy only covers trade and not habitat protection (or vice versa) or makes exceptions, for instance for minor impacts
7	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.
10	The financial institution has a policy which makes explicit that endangered species and their habitats need to be protected by the company and its direct and indirect suppliers

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

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.<sup>37</sup> 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.<sup>38</sup>

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.<sup>39</sup>

**Table 11 Scoring table criteria 9**

Points	Assessment
0	The financial institution has no policy on the introduction of genetically modified species or invasive alien species.
3	The financial institution makes a general commitment to avoid the introduction of genetically modified species or invasive alien species, but the policy is not very specific on what is expected of companies
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 species which are already widely in use
7	The financial institution has a policy which makes explicit that the introduction and use of genetically modified species and invasive alien species is not allowed, or the financial institution requires adherence to international standards which include this prohibition.
10	The financial institution has a policy which makes explicit that the introduction and use of genetically modified species and invasive alien species is not allowed, by the company and its direct and indirect suppliers.

## 10. Companies and their suppliers must minimise or eliminate the use of pesticides

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.<sup>40</sup> 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.<sup>41</sup>

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.<sup>42</sup> Other relevant standards are the 2001 Stockholm Convention on Persistent Organic Pollutants<sup>43</sup>, 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<sup>44</sup>, 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.<sup>45</sup>

The financial institution should require that companies it finances or invests in minimise 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 minimise the use of pesticides.<sup>46</sup>

**Table 12 Scoring table criteria 10**

Points	Assessment
0	The financial institution has no policy on the use of pesticides.
3	The financial institution makes a general commitment to minimise the use of pesticides, but the policy is not very specific on what is expected of companies
5	The financial institution has a policy on the use of pesticides, but the policy makes exceptions, for instance for certain types of pesticides, or the policy does not strive for elimination where possible
7	The financial institution has a policy which makes explicit that the use of all pesticides needs to be minimised, and eliminated where possible, or requires adherence to international standards which include this requirement.
10	The financial institution has a policy which makes explicit that the use of all pesticides needs to be minimised, and eliminated where possible, by the company and its direct and direct suppliers

## 11. Companies and their suppliers must minimise pollution caused by their mills and other operations

Mills and factories processing deforestation-risk commodities often are responsible for significant air, water and soil pollution in their vicinity. This pollution affects wildlife and biodiversity, but also the health and wellbeing of local communities. Companies should make sure to apply the most up-to-date technologies, such as secondary effluent treatment, to avoid and minimise as much as possible polluting emissions. Emissions to air or water which can cause lethal or chronic toxicity to aquatic species should be avoided. Pulp mills should not use elemental chlorine bleaching.

This is in line with a resolution adopted by the United Nations Environmental Assembly in 2017 on pollution mitigation by mainstreaming biodiversity into key sectors: “The resolution aims at strengthening efforts to integrate conservation and sustainable use of biodiversity in various sectors such as agriculture, fisheries and aquaculture, tourism, mining and energy, infrastructure and manufacturing among others. It also points to the need to prevent and reduce pollution from these sectors”.<sup>47</sup>

**Table 13 Scoring table criteria 11**

Points	Assessment
0	The financial institution has no policy on pollution
3	The financial institution makes a general commitment to minimise pollution, but the policy is not very specific on what is expected of companies
5	The financial institution has a policy on minimising pollution, but the policy does not mention all forms of pollution (air, soil and water) or makes exceptions, for instance for certain types of pollution or technologies
7	The financial institution has a policy which makes explicit that all forms of pollution need to be minimised with the best available technologies, or requires adherence to international standards which include this requirement
10	The financial institution has a policy which makes explicit that all forms of pollution need to be minimised with the best available technologies, by the company and its direct and direct suppliers

## 12. Companies and their suppliers must disclose targets and credible transition plans to mitigate their GHG emissions

The 6th assessment report of the Intergovernmental Panel on Climate Change (IPCC) finds that the *Agriculture, Forestry and Other Land Use (AFOLU)* sector on average accounted for 13-21% of global total anthropogenic GHG emissions in the period 2010-2019.<sup>48</sup> Deforestation is responsible for 45% of total AFOLU emissions, while methane emissions caused by enteric fermentation by livestock animals are also an important source.<sup>49</sup> The financial institution should require that companies it finances or invests in measure their GHG emissions and develop targets and a credible transition plan to mitigate their GHG emissions.

To measure GHG emissions, the standards of the Greenhouse Gas Protocol (scope 1-3) are relevant.<sup>50</sup> The targets the company sets for its GHG emissions should align with a 1.5 °C global warming scenario under the Paris Climate Agreement, which requires a reduction of around 50% by 2030. The Expert Peer Review Group (EPRG) of the UN Race to Zero campaign notes that this reduction target implies average annual reductions of approximately 7 per cent following the ‘Carbon Law’ as a rapid roadmap for global decarbonisation. However, the EPRG



also recognises that change may not be linear, in particular for hard-to-abate sectors and that 7% per year may be more/less ambitious depending on baseline, sector and geography.<sup>51</sup>

The United Nation's High-Level Expert Group recommends: "Company transition plans must: [...] disclose short-, medium- and long-term absolute emission reduction targets, and, if relevant, relative emission reduction targets."<sup>52</sup> The targets and pathways to net zero should be generated using a robust methodology consistent with limiting warming to 1.5°C with no or limited overshoot verified by a third party "for example by the Science Based Targets Initiative (SBTi), the Partnership for Carbon Accounting Financials (PCAF), The Paris Agreement Capital Transition Assessment (PACTA), the Transition Pathway Initiative (TPI), the International Organization for Standardization (ISO), among others".<sup>53</sup>

**Table 14 Scoring table criteria 12**

Points	Assessment
0	The financial institution has no policy on the GHG emissions of the companies it finances or invests in
3	The financial institution makes a general commitment that the companies it finances or invests in should mitigate their GHG emissions, but the policy is not very specific on what is expected of companies
5	The financial institution requires the companies it finances or invests in to measure and mitigate their GHG emissions, but the financial institution does not require a 1.5 °C degrees-aligned transition plan with short-term, medium-term and long-term targets based on a credible methodology
7	The financial institution requires the companies it finances or invests in to measure and mitigate their GHG emissions and develop a 1.5 °C degrees-aligned transition plan with short-term, medium-term and long-term targets based on a credible methodology, or requires adherence to international standards which include this requirement
10	The financial institution requires the companies it finances or invests in, as well as their direct and indirect suppliers, to measure and mitigate their GHG emissions and develop a 1.5 °C degrees-aligned transition plan with short-term, medium-term and long-term targets based on a credible methodology

## 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:

### 13. 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

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.<sup>54</sup>

This FPIC right for indigenous peoples is further strengthened by ILO Convention no. 169 concerning Indigenous and Tribal Peoples<sup>55</sup> 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.<sup>56</sup> It is also recognized in the International Finance Corporation’s (IFC) Performance Standard 7 concerning Indigenous Peoples.<sup>57</sup> 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.

**Table 15 Scoring table criteria 13**

Points	Assessment
0	The financial institution has no policy on the principle of Free, Prior and Informed Consent (FPIC).
3	The financial institution makes a general commitment to the principle of Free, Prior and Informed Consent (FPIC), but the policy is not very specific on what is expected of companies
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, but the financial institution does not provide any details on the procedures to be followed
7	The financial institution requires companies 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 deforestation-risk sectors.
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. 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 deforestation-risk sectors.

**14. 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**

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.<sup>58</sup>

**Table 16 Scoring table criteria 14**

Points	Assessment
0	The financial institution has no policy on the rights of land users with customary land rights (other than indigenous peoples).
3	The financial institution makes a general commitment to the principle of Free, Prior and Informed Consent (FPIC) for land users with customary land rights (other than indigenous peoples), but the policy is not very specific on what is expected of companies
5	The financial institution requires companies to respect the right of all communities with customary land rights (other than 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 on the procedures to be followed
7	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 (other than indigenous peoples) 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 deforestation-risk sectors
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 (other than indigenous peoples) 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 deforestation-risk sectors

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

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:<sup>59</sup>

- 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<sup>60</sup> and the Equator Principles<sup>61</sup> have aligned their human rights recommendations with the UNGPs.

**Table 17 Scoring table criteria 15**

Points	Assessment
0	The financial institution has no policy on the protection of human rights by the companies it finances or invests in.
3	The financial institution makes a general commitment to the protection of human rights, but the policy is not very specific on what is expected of companies
5	The financial institution formulates requirements for companies to protect human rights, without explicitly requiring that companies establish human rights due-diligence processes and monitoring systems.
7	The financial institution has a policy which explicitly requires companies to establish human rights due-diligence processes and monitoring systems, or requires adherence to international standards which include this requirement
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

## **16. 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**

The economic, social and cultural rights of local communities can be seriously affected by the operations of companies in deforestation-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".<sup>62</sup>

Economic, social and cultural rights of communities are further protected by the International Covenant on Economic, Social and Cultural Rights (ICESCR).<sup>63</sup>

**Table 18 Scoring table criteria 16**

Points	Assessment
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.
3	The financial institution makes a general commitment to the protection of economic, social and cultural rights of communities, but the policy is not very specific on what is expected of companies
5	The financial institution has a policy which formulates requirements for companies to protect economic, social and cultural rights of communities, but only some rights are mentioned or exceptions are made
7	The financial institution has a policy which explicitly requires companies to respect all economic, social and cultural rights of communities affected by their operations, or requires adherence to international standards which include this requirement
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

**17. Companies and their suppliers must commit to the resolution of complaints and disputes through an open, transparent and consultative process**

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 disputes 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.<sup>64</sup> Guiding Principle 29 therefore recommends 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:<sup>65</sup>

- 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<sup>66</sup> and the Equator Principles<sup>67</sup> have aligned their human rights recommendations with the UNGPs.

**Table 19 Scoring table criteria 17**

Points	Assessment
0	The financial institution has no policy on access to remedy
3	The financial institution makes a general commitment to access to remedy, but the policy is not very specific on what is expected of companies
5	The financial institution has a policy which requires companies to provide access to remedy, without explicitly requiring that companies commit to the resolution of complaints and disputes through an open, transparent and consultative process
7	The financial institution has a policy which explicitly requires companies to commit to the resolution of complaints and disputes through an open, transparent and consultative process, or requires adherence to international standards which include this requirement
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 disputes through an open, transparent and consultative process

### **18. Companies and their suppliers must maintain zero tolerance towards violence and the criminalisation of land, environmental, and human rights defenders**

Land, environmental, and human rights defenders active in deforestation-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.<sup>68</sup> 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.<sup>69</sup>

**Table 20 Scoring table criteria 18**

Points	Assessment
0	The financial institution has no policy on land, environmental, and human rights defenders.
3	The financial institution makes a general commitment to protect land, environmental, and human rights defenders, but the policy is not very specific on what is expected of companies

Points	Assessment
5	The financial institution requires companies to protect land, environmental, and human rights defenders, without explicitly requiring zero tolerance
7	The financial institution has a policy which explicitly requires companies to maintain zero tolerance towards violence and the criminalisation of land, environmental, and human rights defenders, or requires adherence to international standards which include this requirement
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 criminalisation of land, environmental, and human rights defenders

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

The financial institution should require that companies it finances or invests in do not make use of forced labour (including bonded 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 (including bonded labour) and/or child labour is occurring in any way in their operations and their supply chains. For companies operating in or sourcing from Brazil, the starting point for this assessment should be the official government list of companies found to be involved in slave labour and debt bondage.<sup>70</sup> 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.<sup>71</sup> 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<sup>72</sup> in which the International Labour Organisation (ILO) identified ten of its conventions as "fundamental" conventions.<sup>73</sup> These ten conventions cover five crucial topics, including the elimination of all forms of forced and compulsory labour<sup>74</sup> and the effective abolition of child labour.<sup>75</sup>

The commitment to abolish all forms of forced labour, bonded labour and child labour is supported by many other ESG standards, such as the OECD Guidelines for Multinational Enterprises<sup>76</sup>, the International Finance Corporation's (IFC) Performance Standard 2 concerning Labor and Working Conditions<sup>77</sup> and the UN Global Compact.<sup>78</sup>

**Table 21 Scoring table criteria 19**

Points	Assessment
0	The financial institution has no policy on forced labour and child labour.
3	The financial institution makes a general commitment against forced labour and child labour, but the policy is not very specific on what is expected of companies
5	The financial institution has a policy which requires companies not to make use of either forced labour or of child labour
7	The financial institution has a policy which requires companies not to make use of forced labour and child labour, or it requires adherence to international standards which include this requirement



<b>10</b>	The financial institution has a policy which requires companies and their direct and indirect suppliers not to make use of forced labour and child labour, in their operations and in their supply chains.
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## 20. Companies and their suppliers must uphold the rights to freedom of association, collective bargaining and freedom from discrimination

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<sup>79</sup> in which the International Labour Organisation (ILO) identified ten of its conventions as “fundamental” conventions.<sup>80</sup> These ten conventions cover five crucial topics, including the freedom of association and the effective recognition of the right to collective bargaining<sup>81</sup> and the elimination of discrimination in respect of employment and occupation.<sup>82</sup>

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<sup>83</sup>, the International Finance Corporation’s (IFC) Performance Standard 2 concerning Labor and Working Conditions<sup>84</sup> and the UN Global Compact.<sup>85</sup>

**Table 22 Scoring table criteria 20**

Points	Assessment
<b>0</b>	The financial institution has no policy on rights to freedom of association, collective bargaining and freedom from discrimination
<b>3</b>	The financial institution makes a general commitment to the rights to freedom of association, collective bargaining and freedom from discrimination, but the policy is not very specific on what is expected of companies
<b>5</b>	The financial institution requires companies to respect labour rights, but this policy does not mention explicitly the right to freedom of association, and/or the right to collective bargaining and/or the right to freedom from discrimination
<b>7</b>	The financial institution has a policy which explicitly requires companies 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
<b>10</b>	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

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

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.<sup>86</sup>

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<sup>87</sup> and the 2008 ILO Declaration on Social Justice for a Fair Globalization.<sup>88</sup> 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”.<sup>89</sup> 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”.<sup>90</sup>

**Table 23 Scoring table criteria 21**

Points	Assessment
0	The financial institution has no policy on living wages
3	The financial institution makes a general commitment to living wages, but the policy is not very specific on what is expected of companies
5	The financial institution requires companies to pay living wages, but does not clarify that this needs to be earned in a standard working week or the financial institution makes other exceptions
7	The financial institution has a policy which explicitly requires companies to pay a living wage within a standard working week, or it requires adherence to international standards which include this requirement
10	The financial institution has a policy which explicitly requires companies and their direct and indirect suppliers to pay a living wage within a standard working week

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

The financial institution should require that companies it finances or invests in will 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.

These principles are firmly grounded in the 1998 ILO Declaration on Fundamental Principles and Rights at Work<sup>91</sup> in which the International Labour Organisation (ILO) identified ten of its conventions as “fundamental” conventions.<sup>92</sup> These ten conventions cover five crucial topics, including a safe and healthy work environment.<sup>93</sup> The International Finance Corporation (IFC) has covered occupational safety and health in Performance Standard 2 concerning Labor and Working Conditions.<sup>94</sup>

**Table 24 Scoring table criteria 22**

Points	Assessment
0	The financial institution has no policy on occupational safety and health at the companies it finances or invests in
3	The financial institution makes a general commitment to occupational safety and health, but the policy is not very specific on what is expected of companies

Points	Assessment
5	The financial institution does require companies to ensure occupational safety and health, but does focus on a specific area of occupational safety and health or makes certain exceptions
7	The financial institution has a policy which explicitly requires companies to protect the safety and health of their workers in all aspects, or it requires adherence to international standards which include this requirement
10	The financial institution has a policy which explicitly requires companies and their direct and indirect suppliers to protect the safety and health of their workers in all aspects

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

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)<sup>95</sup>, various standards of the International Labour Organization (ILO) on gender equality<sup>96</sup> 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.<sup>97</sup> The International Finance Corporation (IFC) has covered gender equality in Performance Standard 2 concerning Labor and Working Conditions.<sup>98</sup>

**Table 25 Scoring table criteria 23**

Points	Assessment
0	The financial institution has no policy on gender-based discrimination
3	The financial institution makes a general commitment against gender-based discrimination, but the policy is not very specific on what is expected of companies
5	The financial institution requires companies to abstain from gender-based discrimination, but this policy does not include all types of gender-based discrimination
7	The financial institution has a policy which explicitly requires companies 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
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

## 2.3 Governance criteria

### 2.3.1 Governance of the financial institution

The following eight criteria are included in the F&F Policy Assessment Methodology to assess the governance of the financial institution itself:

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

To ensure that all employees of the financial institution take deforestation and related sustainability seriously and implement and enforce the deforestation-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.

**Table 26 Scoring table criteria 24**

Points	Assessment
0	The financial institution has no sustainability objectives
3	The financial institution has sustainability objectives, but does not make clear how these objectives are integrated in its governance structure
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.
7	The financial institution has made two 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.
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.

## 25. The financial institution is transparent on the actions through which its ESG policies are implemented and enforced

A financial institution's deforestation-risk policies are worthless if not implemented and enforced rigorously. The financial institution therefore needs to be transparent on the actions through which its deforestation-risk policies are implemented and enforced. Such actions need to include:<sup>99</sup>

- 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.

**Table 27 Scoring table criteria 25**

Points	Assessment
0	The financial institution does not disclose how its ESG policies are implemented.
3	The financial institution discloses a general description of the implementation of its ESG policies, but does not elaborate on any of the important actions (as mentioned above)
5	The financial institution discloses a description of the implementation of its ESG policies, in which it elaborates on one to three important actions (as mentioned above)
7	The financial institution discloses a description of the implementation of its ESG policies, in which it elaborates on at least four important actions (as mentioned above)
10	The financial institution discloses a description of the implementation of its ESG policies, in which it elaborates on at least four important actions (as mentioned above) and provides details on how these actions influence companies in deforestation-risk sectors

**26. The financial institution applies its ESG policies to the entire corporate group to which its client or investee belongs to**

To be able to attract financing from financial institutions which have adopted deforestation-risk policies, a company or corporate group active in deforestation-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).

**Table 28 Scoring table criteria 26**

Points	Assessment
0	The financial institution does not have ESG policies
3	The financial institution does have ESG policies, but does not specify what the policies mean for the entire corporate group to which the client or investee company belongs
5	The financial institution mentions that in one of its ESG policies that the policy also applies to the entire corporate group to which the client or investee company belongs

7	The financial institution clarifies that all its ESG policies also apply to the entire corporate group to which the client or investee company belongs
10	The financial institution clarifies that all its ESG policies also apply to the entire corporate group to which the client or investee company belongs, clarifying how this corporate group is identified

## 27. The financial institution is transparent on its investments and financings in deforestation-risk sectors

The financial institution should publish on its website to which companies active in deforestation-risk sectors (farmers, plantation/concession companies, traders, processors, crushers, refiners, slaughterhouses and consumer-goods companies) it is providing financing or in which it is investing. Deforestation-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)*. 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 deforestation-risk commodity sectors.

The Global Reporting Initiative recommends financial institutions to continue using this G4 Financial Services Sector Disclosure together with the new *GRI Universal Standard*, as long as the three new Sector Standards for the financial sector are under development.<sup>100</sup>

**Table 29 Scoring table criteria 27**

Points	Assessment
0	The financial institution does not publish a sectoral break-down of its investments and financings
3	The financial institution does publish a sectoral break-down of its investments and financings, but this break-down is not detailed enough to get a good indication of the exposure to deforestation-risk commodity sectors
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 exposure to deforestation-risk commodity sectors
7	The financial institution publishes the names of companies active in deforestation-risk commodity sectors to which it is providing financing or in which it is investing.
10	The financial institution publishes the names of companies active in deforestation-risk commodity sectors to which it is providing financing or in which it is investing, together with assessments of how these companies live up to the ESG policies of the financial institution

## 28. The financial institution discloses its financed GHG emissions related to Agriculture, Forestry and Other Land Use

The 6th assessment report of the Intergovernmental Panel on Climate Change (IPCC) finds that the *Agriculture, Forestry and Other Land Use (AFOLU)* sector on average, accounted for 13-21% of global total anthropogenic GHG emissions in the period 2010-2019.<sup>101</sup> Deforestation is

responsible for 45% of total AFOLU emissions, while methane emissions caused by enteric fermentation by livestock animals are also an important source.<sup>102</sup> Financial institutions contribute to these emissions through their financing and investment activities and must account for these financed emissions in their GHG inventories.

To do so, the standards of the Greenhouse Gas Protocol (scope 1-3)<sup>103</sup> and the recommendations of the Financial Stability Board’s Task Force on Climate-Related Financial Disclosures (TCFD) are relevant.<sup>104</sup> Various methodologies to measure the financed emissions of a financial institution are developed by for instance the Platform Carbon Accounting Financials (PCAF)<sup>105</sup> and the Paris Agreement Climate Transition Assessment (PACTA) project.<sup>106</sup>

**Table 30 Scoring table criteria 28**

Points	Assessment
0	The financial institution does not disclose any data on its financed emissions
3	The financial institution discloses data on its financed emissions, but does not provide disaggregated figures for Agriculture, Forestry and Land Use (AFOLU) emissions
5	The financial institution discloses data on its financed AFOLU emissions, which are reduced because the financial institution has purchased carbon offsets
7	The financial institution discloses data on its financed AFOLU emissions and explicitly excludes purchasing carbon offsets to compensate its financed emissions
10	The financial institution discloses data on its financed AFOLU emissions and explicitly excludes purchasing carbon offsets to compensate its financed emissions. The AFOLU emissions are further broken down in sector-specific data for the deforestation-risk commodities that the financial institution has significant exposure to

**29. The financial institution discloses targets and a credible transition plan to mitigate GHG emissions from Agriculture, Forestry and Land Use across its portfolio**

The financial institution should publish targets for its financed emissions, including targets for Agriculture, Forestry and Land Use (AFOLU) emissions and should develop specific plans for deforestation-risk sectors it has significant exposure to.

The targets should align with a 1.5 °C global warming scenario under the Paris Climate Agreement, which requires a reduction of around 50% by 2030. The Expert Peer Review Group (EPRG) of the UN Race to Zero campaign notes that this reduction target implies average annual reductions of approximately 7 per cent following the ‘Carbon Law’ as a rapid roadmap for global decarbonisation. However, the EPRG also recognises that change may not be linear, in particular for hard-to-abate sectors and that 7% per year may be more/less ambitious depending on baseline, sector and geography.<sup>107</sup>

The UN Race to Zero also stipulates that the financial institution’s climate change targets should include a specific target for methane reduction of at least 34% by 2030. Transition plans should cover what actions will be taken each year, within 2-3 years and by 2030 and demonstrate how the FI will achieve its decarbonisation targets.<sup>108</sup>



The United Nation's High-Level Expert Group recommends: "Company transition plans must: [...] disclose short-, medium- and long-term absolute emission reduction targets, and, if relevant, relative emission reduction targets."<sup>109</sup> The targets and pathways to net zero should be generated using a robust methodology consistent with limiting warming to 1.5°C with no or limited overshoot verified by a third party "for example by the Science Based Targets Initiative (SBTi), the Partnership for Carbon Accounting Financials (PCAF), The Paris Agreement Capital Transition Assessment (PACTA), the Transition Pathway Initiative (TPI), the International Organization for Standardization (ISO), among others".<sup>110</sup>

**Table 31 Scoring table criteria 29**

Points	Assessment
0	The financial institution does not disclose targets nor transition plans to reduce its financed emissions
3	The financial institution does disclose targets to reduce its financed emissions, but has no disaggregated target for Agriculture, Forestry and Land Use (AFOLU) emissions
5	The financial institution does disclose a specific target to reduce its Agriculture, Forestry and Land Use (AFOLU) emissions, but this target is not further elaborated in a transition plan with short-term, medium-term and long-term goals, and with a clear description of instruments and actions
7	The financial institution does disclose a transition plan with short-term, medium-term and long-term goals to reduce its Agriculture, Forestry and Land Use (AFOLU) emissions, but this transition plan relies partly on carbon offsets to reduce financed emissions or does not cover scope 3 emissions or does not have specific sector-specific targets for deforestation-risk sectors the financial institution has significant exposure to
10	The financial institution does disclose a transition plan with short-term, medium-term and long-term goals to reduce its Agriculture, Forestry and Land Use (AFOLU) emissions. This transition plan does not rely on carbon offsets to reduce financed emissions, does cover scope 3 emissions and does have specific sector-specific targets for deforestation-risk sectors the financial institution has significant exposure to

### **30. The financial institution is transparent on its engagements with companies in deforestation-risk sectors**

The financial institution should publish on its website how it interacts with companies active in deforestation-risk 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.<sup>111</sup>

The Global Reporting Initiative recommends financial institutions to continue using this *G4 Financial Services Sector Disclosure* together with the new *GRI Universal Standard*, as long as the three new Sector Standards for the financial sector are under development.<sup>112</sup>

Similar requirements are included in the 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.<sup>113</sup>

**Table 32 Scoring table criteria 30**

Points	Assessment
0	The financial institution is not transparent on its engagements with companies
3	The financial institution provides some information on its engagements with companies, but this does not include any information on any company operating in a deforestation-risk sector
5	The financial institution provides some information on its engagements with one or two companies operating in a deforestation-risk sector
7	The financial institution provides detailed information on its engagements with one or two companies operating in a deforestation-risk sector, such as names of companies, topics, or results
10	The financial institution provides detailed information on its engagements with at least five companies operating in a deforestation-risk sector, such as names of companies, topics, or results

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

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 deforestation-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”.<sup>114</sup>

The OECD National Contact Points can be considered as a State-based non-judicial mechanisms grievance mechanism.<sup>115</sup> Financial institutions should therefore cooperate with OECD National Contact Points if stakeholders prefer to use it as a grievance mechanism.

**Table 33 Scoring table criteria 31**

<b>Points</b>	<b>Assessment</b>
<b>0</b>	The financial institution does not have, or does not participate in, a grievance mechanism which is open for communities and individuals that have been adversely impacted by the activities of companies that are financed by the financial institution
<b>3</b>	The financial institution does have an internal grievance mechanism which is open for communities and individuals that have been adversely impacted by the activities of companies that are financed by the financial institution
<b>5</b>	The financial institution refers complaints from communities and individuals that have been adversely impacted by the activities of companies that are financed by the financial institution to external grievance mechanisms such as the OECD National Contact Points
<b>7</b>	The financial institution refers complaints from communities and individuals that have been adversely impacted by the activities of companies that are financed by the financial institution to external grievance mechanisms such as the OECD National Contact Points and has clearly committed to respect and cooperate in good faith with these grievance mechanisms
<b>10</b>	The financial institution has established an external transparent and effective grievance mechanism complaints from communities and individuals that have been adversely impacted by the activities of companies that are financed by the financial institution, or has committed to respect and cooperate in good faith with all State-based grievance mechanisms

### **2.3.2 Governance of financed and investee companies**

The following seven criteria are included in the F&F Policy Assessment Methodology to assess how the financial institution deals with the governance of the companies it is financing and investing in:

#### **32. 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**

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. All prospective clients must be in full compliance with all local, national and international norms, regulations, laws and conventions related to acquisition, harvesting, sourcing or use of land, concessions, forest products or production materials as well as for the implementation of pulp and paper mills and other related infrastructure.. Main international norms are ILO core conventions and the Universal Declaration of human rights. 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.<sup>116</sup> 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.<sup>117</sup>

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.<sup>118</sup>

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".<sup>119</sup>

**Table 34 Scoring table criteria 32**

Points	Assessment
0	The financial institution has no policy on the legality of operations and commodity supplies of the companies it is financing or investing in
3	The financial institution makes a general commitment on the legality of operations and commodity supplies of the companies it is financing or investing in, but the policy is not very specific on what is expected of companies
5	The financial institution has a policy on the legality of operations and commodity supplies of the companies it is financing or investing in, but does not make clear how companies are screened on their adherence to this policy
7	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
10	The financial institution has a policy which explicitly requires companies and their direct and indirect suppliers 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

### 33. Companies and their suppliers must ensure supply chain transparency and traceability

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 deforestation-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.<sup>120</sup>

**Table 35 Scoring table criteria 33**

Points	Assessment
0	The financial institution has no policy on supply chain transparency and traceability
3	The financial institution makes a general commitment to supply chain transparency and traceability, but the policy is not very specific on what is expected of companies
5	The financial institution has a policy on supply chain transparency and traceability, but the policy does not explicitly require companies to publicly disclose their supply chain
7	The financial institution has a policy which explicitly requires companies to publicly disclose their first-tier supply chain, ensuring full traceability to their direct suppliers’ farms, plantations or land-based operations. Or it requires adherence to international standards which include this requirement
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 deforestation-risk commodities it buys, processes and/or sells back to a specific operation of one of its (indirect) suppliers

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

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 13 and 14).

**Table 36 Scoring table criteria 34**

Points	Assessment
0	The financial institution has no policy on concession maps
3	The financial institution makes a general commitment to transparency on concession areas, but the policy is not very specific on what is expected of companies

Points	Assessment
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
7	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. Or it requires adherence to international standards which include this requirement
10	The financial institution has a policy which explicitly requires companies and their direct and indirect suppliers to publish geo-referenced maps of all their concession areas and farms under their management, including those of their subsidiaries

### 35. Companies must publish Environmental and Social Impact Assessments for all their operations

The financial institution should require companies it finances or invests in to complete and publicly disclose full and comprehensive Environmental and Social Impact Assessments covering all direct and indirect impacts of their activities on biodiversity, water tables, soils, fire risks and communities. The ESIA should cover the management of and sourcing from forests and plantations, the manufacturing facilities and other relevant operations. The ESIA should also look at impacts that have happened before the company got ownership of the land, in particular during undemocratic governments. The company must demonstrate that all relevant stakeholders were properly consulted when conducting the assessment and that their concerns and rightful interests have been fully taken into account.

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.<sup>121</sup> 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.<sup>122</sup>

The best known guidelines for sustainability reporting in general are the Global Reporting Initiative (GRI) Standards. The new *GRI Universal Standard*, released in 2021, will be complemented by various *Sector* and *Topic Standards*.<sup>123</sup> The GRI Standards already include a specific *Topic Standard* on biodiversity, *GRI 304: Biodiversity 2016*.<sup>124</sup>

**Table 37 Scoring table criteria 35**

Points	Assessment
0	The financial institution has no policy on impact assessments
3	The financial institution makes a general commitment to environmental and social impact assessments, but the policy is not very specific on what is expected of companies
5	The financial institution has a policy which expects companies to make environmental and social impact assessments when they are starting new operations or expanding their operations, but the policy does not require companies to publish the outcomes



7	The financial institution has a policy which explicitly requires companies to publish environmental and social impact assessments for all their operations, or it requires adherence to international standards which include this requirement.
10	The financial institution has a policy which explicitly requires companies and their direct and indirect suppliers to publish environmental and social impact assessments for all their operations, or it requires adherence to international standards which include this requirement.

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

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.<sup>125</sup> In deforestation-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<sup>126</sup> 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.<sup>127</sup> These standards are further supported by, among others, the OECD Guidelines for Multinational Enterprises<sup>128</sup>, the UN Global Compact<sup>129</sup> 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.<sup>130</sup>

**Table 38 Scoring table criteria 36**

Points	Assessment
0	The financial institution has no policy on corruption and bribery, or its policies on corruption and bribery do not cover the companies it is financing or investing in.
3	The financial institution makes a general commitment on corruption and bribery by the companies it is financing or investing in, but the policy is not very specific on what is expected of companies
5	The financial institution has a policy on corruption and bribery by the companies it is financing or investing in, but this policy only states that the financial institution does not want to be involved in any financial transaction related to corruption, bribery and financial crimes



<b>7</b>	The financial institution has a policy which explicitly requires companies to implement clear anti-corruption policies which ensure that the company will not get engaged in corruption, bribery and financial crimes, or it requires adherence to international standards which include this requirement
<b>10</b>	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, or it requires adherence to international standards which include this requirement

**37. 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 international corporate structures solely for tax avoidance purposes**

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.<sup>131</sup>

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<sup>132</sup>, the OECD Guidelines for Multinational Enterprises<sup>133</sup> 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.<sup>134</sup>

**Table 39 Scoring table criteria 37**

<b>Points</b>	<b>Assessment</b>
<b>0</b>	The financial institution has no tax policy or its tax policy does not cover the tax behaviour of the companies it is financing or investing in
<b>3</b>	The financial institution makes a general commitment on tax evasion and tax avoidance, but the policy is not very specific on what is expected of companies
<b>5</b>	The financial institution has a policy on the tax behaviour of the companies it is financing or investing in, but this policy does not cover tax avoidance or it only specifies that the financial institution does not want to be involved in financial deals which have the purpose of tax avoidance or tax evasion
<b>7</b>	The financial institution has a policy which explicitly requires companies 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.

Points	Assessment
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.

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

To assess if companies are involved in tax avoidance or tax evasion practices, financial institutions should require companies in deforestation-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 deforestation-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”.<sup>135</sup>

The *GRI 207: Tax 2019* standard of the Global Reporting Initiative includes a specific *Disclosure 207-4 on Country-by-country reporting*. This disclosure requires companies to disclose a number of key indicators for each jurisdiction they are active in, including revenues, costs, employees, taxes paid and taxes accrued.<sup>136</sup>

**Table 40 Scoring table criteria 38**

Points	Assessment
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.
3	The financial institution makes a general commitment to country-by-country data, but the policy is not very specific on what is expected of companies
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 not both, or without being very specific about the data required
7	The financial institution has a policy which explicitly requires the companies to publish their group structure and country-by-country data, describing specifically which data should be published
10	The financial institution has a policy which explicitly requires the companies and their direct and indirect suppliers to publish their group structure and country-by-country data, describing specifically which data should be published

### 3 How to use the assessment form

The assessment form used to assess financial institutions against the Forests & Finance Policy Assessment Methodology has four tabs. Below is some guidance on what needs to be filled in on each of the four tabs:

- **Financing & investments:** please fill in the name of the financial institution in cell C3. Please copy the investment and financing figures as provided separately to the range C10-H11.
- **Policies:** Please make a list of all policies, reports and website pages of the financial institution which could be relevant for the assessment. Don't forget to fill in columns D and E. Outdated reports and policies can be removed.
- **Policy assessment:** The investment and financing figures on the tab "Financing & investments" indicate if the financial institution is involved in financing, investments, or both, and which commodities it is financing and/or investing in. Look at columns J-O and columns V-AA: you have to assess the financing policies for commodities shown in green in row 3 in columns J-O and you have to assess investment policies for commodities shown in green in row 3 in columns V-AA.

For the commodities which you do not have to assess ("No score" in red in row 3), please fill in "n.a." for each criteria. This means "not active" or "not applicable". This is quite sensitive, so fill in "n.a.", not "N.A." or "na" and don't add a space.

For the commodities which you do have to assess, please do the following:

- Check which policy, report or website page could be relevant for this criteria. Select this source from the dropdown menus in columns H (for financing policies) or T (for investment policies). You can select up to 5 sources for each criteria.
  - Put relevant quotes from the policies in columns I and U, in the blank cells. Always mention the page number where you found the quote. When you quote from more than one policy, please indicate which quote is from which policy.
  - After comparing the quotes with the methodology, assign scores in columns J-O and columns V-AA (only for the commodities which need to be scored).
  - When useful, provide some justification or comments in columns P and/or AB. Formulate concise but clear, especially in cases the policy quotes do not match perfectly with the scoring table.
- **Overview scores:** On this tab the scores are summarized, you don't need to change anything here.

### 4 General guidance on using the F&F Policy Assessment Methodology

This section gives general guidance on how to interpret the different criteria and scoring tables of the Forests & Finance Policy Assessment Methodology (see Table 41). It clarifies how different aspects play a role in scoring the statements in the policies of financial institutions.

#### 4.1 Application to direct and indirect suppliers

A score of 10 points can only be awarded to a criterium if the policy is very clear that the criterium is required from the company financed by or invested in, AND also from the direct and indirect suppliers of the company. If the policy refers to an international standard which includes the requirement (as indicated in Table 41 and Table 42), and the financial institution explicitly adds that this standard also applies to the direct and indirect suppliers of the company, 10 points can be granted as well.

If the financial institution applies a certain requirement (or an international standard which includes the requirement) only to the company it is financing or investing in, at max 7 points can be granted.

If the financial institution expects companies to “be aware of their sustainability risks, including those in their supply chain” or to “influence their supply chain to promote sustainable development”, we cannot conclude that the criterium is applicable to the company’s direct and indirect suppliers as well. This means that at max 7 points can be granted.

## 4.2 Wording of policies

Many criteria (1 to 23 and 32 to 38) specify what the financial institution should “require” from the companies it is financing or investing in. However, financial institutions will not always use the same wordings to express their expectations. Some of these wordings can be seen as equivalent to “require”, others are weaker, e.g. “request”, “encourage” or “urge”. When financial institutions formulate their expectations with these weaker wordings, lower scores should be granted.

In some cases, however, the weakness of the wordings can be compensated somewhat if the financial institution adds a reasonable, relatively short timeframe to its expectation. E.g. “we request companies to achieve RSPO certification in 1-2 years.”

Based on these consideration, the following guidelines can be used to interpret the wordings used by financial institutions to express their expectations companies it is financing or investing in (criteria 1 to 23 and 32 to 38). If the financial institution:

- “Requires”, “Expects” or “Demands” the criterium from the company AND its direct and indirect suppliers and does not make any exceptions, 10 points can be granted. This is also the case when meeting the criterium (by the company and its suppliers) is formulated as a “Precondition” or if not meeting the criterium (by the company and its suppliers) leads to “Exclusion”;
- “Requires”, “Expects” or “Demands” the criterium from the company without any exceptions, 7 points can be granted. This is also the case when meeting the criterium by the company is formulated as a “Precondition” or if not meeting the criterium by the company leads to “Exclusion”;
- “Requires”, “Expects” or “Demands” the criterium from the company with some smaller exceptions, 5 points can be granted. This is also the case when meeting the criterium by the company is formulated as a “Precondition” with some smaller exceptions, or if not meeting the criterium by the company leads to “Exclusion” with some smaller exceptions;
- “Urges” or “Requests” the criterium from the company and specifies a reasonable, relatively short timeframe, 5 points can be granted;
- “Urges” or “Requests” the criterium from the company without a reasonable, relatively short timeframe, 3 points can be granted;
- “Encourages” the company to meet the criterium, 3 points can be granted.

## 4.3 Types of financings and investments

### 4.3.1 General distinction between financing policies and investment policies

Many banks are only providing financings to companies, they are not active in investments. In this case, it can be assumed that the policy documents of these financial institutions apply to financings (although not necessarily all types of financings, see sub-section 4.3.2).

Many investors are only investing in companies, they are not providing financings. In this case, it can be assumed that the policy documents of these financial institutions apply to investments.

Some financial institutions are active in both financings and investments. For company-wide policy documents, such as annual reports, sustainability reports or anti-corruption policies, it can then be assumed that they apply to both financings and investments. For other policy documents, such as sector policies, human rights statements, etc., this is more difficult to assess.

The primary criterium to assess the scope of such documents is to read what the financial institution states about the scope of the policy, usually in the title or in the introductory paragraphs. Policies for “wealth management” and “private banking” should also be considered as “investment policies”, as these activities mean that money collected by a bank from (wealthy) clients is invested in shares and bonds.

A secondary criterium is the wording the financial institution uses to describe “companies” in the policy document: “clients” usually refers to financings, “investees” to investments. But be aware that some financial institutions might use the wording “clients” throughout a policy document, although they write in the introduction that the policy also applies to its investments. This introductory statement should then be taken as leading.

If a policy document is applicable to “financings”, “investments” or both, needs to be indicated on the tab “Policies” of the assessment form. Policies which only apply to “financings” cannot be used to assess and score criteria listed under “Investment policies” on the tab “Policy assessment”, and vice versa.

#### **4.3.2 Scope of financing policy limited to project finance**

It is important to be aware that the criteria/expectations formulated in “Financing policies” are not always applicable to all financings. This could become clear in the title or introductory paragraphs of the policy, when it limits its scope to “project finance”. It could also become clear in how the financial institution formulates its criteria or expectations. If the financial institution for instance talks about “project finance transactions”, “transactions where proceeds are project specific” or “transactions in which the majority use of proceeds is attributed to identified activities”, the scope of the policy is clearly limited to a specific type of financings (i.e. project finance).

In this case, the maximum score for the criterium/criteria for which the policy is relevant is as follows:

- 5 points for pulp & paper, as this is the only deforestation-risk commodity sector in which project finance plays a big role;
- 3 points for all other commodity sectors, as project finance does not play a (large) role in these sectors.

#### **4.3.3 Distinction between new and existing clients**

Another way in which some banks limit the scope of their financing policies, is making a distinction between new and existing clients. For new clients, the expectation might be formulated stronger, eligible for 7 points, while for existing clients the expectation might be formulated weaker, eligible for 3 to 5 points. In this case, we will grant the (lower) score based on how the expectation for existing clients is formulated.

#### **4.4 Internal operations of the financial institution**

Criteria 1 to 23 and 32 to 38 of the Forests & Finance Policy Assessment Methodology deal with what the financial institution should require from the companies it is financing or investing in. For these criteria it is irrelevant how the financial institution deals with these issues in its own operations, this can never be a reason for granting points.

Only criteria 24 to 31 deal with the internal operations of the financial institution itself. Based on a policy document applicable to the entire financial institution, such as an annual report, the same points (0, 3, 5, 7 or 10) can be filled in for criteria 24-31 in all commodity columns both under “Financing policy” and under “Investment policy” - of course only the columns indicated in green.

## 5 International standards

If the financial institution requires companies to meet certain internal standards, this requirement can also be eligible for scoring as some international standards include some of the criteria of Forests & Finance Policy Assessment Methodology. This section explains this further.

### 5.1 Standards considered

The following standards are considered for scoring:

- CBD Voluntary Guidelines on Biodiversity-Inclusive Impact Assessments;
- FAO International Code of Conduct on the Distribution and Use of Pesticides;
- FAO Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forests in the Context of National Food Security (VGGT);
- Forest Stewardship Certification scheme;
- ILO Convention on Indigenous and Tribal Peoples;
- ILO Convention on Occupational Health and Safety;
- ILO Declaration on Fundamental Principles and Rights at Work;
- International Finance Corporation Performance Standards;
- OECD Guidelines for Multinational Enterprises;
- Round Table on Responsible Soy (RTRS) certification scheme;
- Roundtable on Sustainable Palm Oil (RSPO) certification scheme;
- United Nations Convention against Corruption;
- United Nations Declaration on the Rights of Indigenous Peoples;
- United Nations Global Compact;
- United Nations Guiding Principles on Business and Human Rights;
- United Nations International Covenant on Economic, Social and Cultural Rights (ICESCR);
- Women’s Empowerment Principles.

### 5.2 Wording required

If a criterium is included in a standard, and if the financial institution explicitly states that it expects companies to live up to this standard, the financial institution can be granted points for this criterium. At max 7 points can be granted, as these international standards and certification systems only apply to the company which the financial institution is financing or investing in, and not to its suppliers.

The financial institution should word clearly the expectation that the company lives up to the international standard, as further explained in section 4.2:

- If the financial institution “Requires”, “Expects”, “Sets as a condition” or “Demands” the companies it is financing or investing in, to “Live up to”, “Follow”, “Respect”, “Adhere to”, or “Be certified by” this international standard, 7 points can be granted for the criteria included in this standard. Also if this requirement can be achieved within a short, reasonable timeframe (max 2 years);
- If the financial institution itself “Adopts”, “Is a member of”, “Supports”, “Follows” or “Adheres to” a certain international standard, no score can be granted;
- If the financial institution expects companies to “Be a member of” a certification system or “Support” another international standard, no score can be granted.



Some financial institutions demand companies to be certified by one of the certification systems listed in section 5.1 OR by another, weaker certification system, e.g. “RSPO or ISPO”, “FSC or PEFC” and “RTRS or a comparable system”. In these cases, the same guidance applies as mentioned above, but the maximum score then is 5. If the financial institution only requires a weaker certification system, no score can be granted.

### 5.3 Which criteria are covered by each standard

A score (of 7 or 5 points) can only be granted for criteria which are addressed adequately in the standard or certification system. Table 41 indicates for each criterium by which international standards it is covered. Table 42 summarizes the criteria included in some of the most important international standards.

## 6 Guidance per criteria

Table 41 provides specific guidance for the scoring of each criterium, indicating which international standards could be eligible for scoring. This table will be updated further when more experience is gained with applying the Forests & Finance Policy Assessment Methodology.

**Table 41 Forests & Finance policy assessment criteria grouped by category**

Criteria	Scoring	Guidance
1 Companies and their suppliers must commit to zero-deforestation and no-conversion of natural forests and ecosystems.	0 The financial institution has no policy on the protection of natural ecosystems	<p>Requiring companies to respect IFC Performance Standard 6 (Biodiversity Conservation and Sustainable Management of Living Natural Resources) is eligible for 7 points for all commodities</p> <p>Requiring companies to have a No Deforestation, No Peat, and No Exploitation (NDPE) policy is eligible for 7 points for all commodities</p> <p>Requiring RTRS Certification is eligible for 7 points for Soy</p> <p>Requiring RSPO Certification is eligible for 7 points for Palm oil</p>
	3 The financial institution makes a general commitment to the protection of natural ecosystems, but this commitment is not very specific on what is expected from companies	
	5 The financial institution 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 has set no cut-off date or an incredible cut-off date	
	7 The financial institution explicitly requires companies not to contribute to conversion or degradation of natural ecosystems (after a credible cut-off date) or requires adherence to international standards which include this requirement	
	10 The financial institution explicitly requires companies and its direct and indirect suppliers not to contribute to conversion or degradation of natural ecosystems (after a credible cut-off date)	
2 Companies and their suppliers must not drain or degrade wetlands and peatlands.	0 The financial institution has no policy on the protection of wetlands and peatlands	<p>Requiring companies to respect IFC Performance Standard 6 (Biodiversity Conservation and Sustainable Management of Living Natural Resources) is eligible for 7 points for all commodities</p> <p>Requiring RTRS Certification is eligible for 7 points for Soy</p> <p>Requiring RSPO Certification is eligible for 7 points for Palm oil</p>
	3 The financial institution makes a general commitment to the protection of wetlands and peatlands, but this commitment is not very specific on what is expected from companies	
	5 The financial institution has a policy on the protection of wetlands and/or peatlands, but the policy makes exceptions (for instance for minor forms of degradation) or has set an incredible cut-off date or does not mention wetlands or peatlands explicitly	



Criteria		Scoring		Guidance
		7	The financial institution has a policy which explicitly requires companies to protect all wetlands and peatlands at any depth (after a credible cut-off date), or requires adherence to international standards which include this requirement	Requiring companies to have a No Deforestation, No Peat, and No Exploitation (NDPE) policy is eligible for 7 points for all commodities
		10	The financial institution has a policy which explicitly requires companies and their direct and indirect suppliers to protect all wetlands and peatlands at any depth (after a credible cut-off date)	
3	Companies and their suppliers must not convert or degrade High Carbon Stock (HCS) forest areas.	0	The financial institution has no policy on the protection of High Carbon Stock (HCS) forest areas	Requiring RSPO Certification is eligible for 7 points for Palm oil
		3	The financial institution makes a general commitment to the protection of High Carbon Stock (HCS) forest areas, but the policy is not very specific on what is expected of companies	Requiring companies to have a No Deforestation, No Peat, and No Exploitation (NDPE) policy is eligible for 7 points for all commodities
		5	The financial institution has a policy on the protection of High Carbon Stock (HCS) forest areas, but the policy makes exceptions (for instance for minor forms of degradation) or has set an incredible cut-off date or no cut-off date at all	
		7	The financial institution has a policy which explicitly requires the application of the High Carbon Stock Approach to protect all High Carbon Stock (HCS) forest areas (after a credible cut-off date) in countries with a national HCS interpretation	
		10	The financial institution has a policy which explicitly requires the application of the High Carbon Stock Approach by the company and its direct and indirect suppliers to protect all High Carbon Stock (HCS) forest areas (after a credible cut-off date) in countries with a national HCS interpretation.	
4	Companies and their suppliers must not operate in, or have negative impacts on, protected areas.	0	The financial institution has no policy on the protection of protected areas	Requiring companies to respect IFC Performance Standard 6 (Biodiversity Conservation and Sustainable Management of Living Natural Resources) is eligible for 7 points for all commodities
		3	The financial institution makes a general commitment to the protection of protected areas, but the policy is not very specific on what is expected of companies	Requiring FSC certification is eligible for 7 points for Timber and Pulp & paper
		5	The financial institution has a policy on the protection of protected areas, but the policy makes exceptions (for instance for minor impacts) or does not include all types of protected areas	
		7	The financial institution has a policy which explicitly requires protection of all protected areas or requires adherence to international standards which include this requirement	
		10	The financial institution has a policy which explicitly requires protection of all protected areas by the company and its direct and indirect suppliers	

Criteria		Scoring		Guidance
5	Companies and their suppliers must identify and protect High Conservation Value (HCV) areas under their management.	0	The financial institution has no policy on the identification and protection of High Conservation Value (HCV) areas.	Requiring RSPO Certification is eligible for 7 points for Palm oil
		3	The financial institution makes a general commitment to the identification and protection of High Conservation Value (HCV) areas, but the policy is not very specific on what is expected of companies	Requiring FSC Certification is eligible for 7 points for Timber and Pulp & paper Requiring companies to respect IFC Performance Standard 6 (Biodiversity Conservation and Sustainable Management of Living Natural Resources) is eligible for 7 points for all commodities
		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 certain regions	Requiring RTRS Certification is eligible for 7 points for Soy
		7	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	Requiring companies to have a No Deforestation, No Peat, and No Exploitation (NDPE) policy is eligible for 7 points for all commodities
		10	The financial institution has a policy which makes explicit that High Conservation Value (HCV) areas need to be identified and protected by the company and its direct and indirect suppliers	
6	Companies and their suppliers must not use fire for land clearing activities and fight fires.	0	The financial institution has no policy on the use of fire for land clearing	Requiring RSPO Certification is eligible for 7 points for Palm oil, because of RSPO criteria 7.11
		3	The financial institution makes a general commitment to avoid the use of fire for land clearing, but the policy is not very specific on what is expected of companies	Requiring companies to have a No Deforestation, No Peat, and No Exploitation (NDPE) policy is eligible for 7 points for all commodities
		5	The financial institution has a policy on use of fire for land clearing, but the policy makes exceptions beyond what can be reasonably be allowed, for instance for small fires, or does not mention an obligation to fight fires when they occur	
		7	The financial institution has a policy which categorically prohibits use of fire for land clearing use, requires not to establish plantations in areas prone to fire and includes the obligation to fight fires, or requires adherence to international standards which include this prohibition. Reasonable exceptions can be allowed	
		10	The financial institution has a policy which categorically prohibits the use of fire for land clearing use, requires not to establish plantations in areas prone to fire and includes the obligation to fight fires, for the company as well as its direct and indirect suppliers. Reasonable exceptions can be allowed	
7	Companies and their suppliers must minimise their impacts on groundwater levels and water quality.	0	The financial institution has no policy on water scarcity and quality.	Requiring RSPO Certification is eligible for 7 points for Palm oil, because of RSPO criteria 7.8
		3	The financial institution makes a general commitment to preserve water levels and/or water quality, but the policy is not very specific on what is expected of companies	Requiring FSC Certification is eligible for 7 points for Timber and Pulp & paper

Criteria	Scoring		Guidance
	5	The financial institution has a policy on water scarcity or on water quality	Requiring RTRS Certification is eligible for 7 points for Soy
	7	The financial institution makes clear that companies must take concrete steps to minimise their impacts on groundwater levels and water quality	
	10	The financial institution makes clear that companies and their direct and indirect suppliers must take concrete steps to minimise 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.	0	The financial institution has no policy on the protection of endangered species.	Requiring RSPO Certification is eligible for 7 points for Palm oil, because of RSPO criteria 7.6
	3	The financial institution makes a general commitment to the protection of endangered species, but the policy is not very specific on what is expected of companies	Requiring companies to respect IFC Performance Standard 6 (Biodiversity Conservation and Sustainable Management of Living Natural Resources) is eligible for 7 points for all commodities
	5	The financial institution has a policy on the protection of endangered species, but the policy only covers trade and not habitat protection (or vice versa) or makes exceptions, for instance for minor impacts	Requiring FSC Certification is eligible for 7 points for Timber and Pulp & paper
	7	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.	Requiring RTRS Certification is eligible for 7 points for Soy
	10	The financial institution has a policy which makes explicit that endangered species and their habitats need to be protected by the company and its direct and indirect suppliers	

Criteria		Scoring		Guidance
9	Companies and their suppliers must not use nor introduce genetically modified species or invasive alien species into the environment.	0	The financial institution has no policy on the introduction of genetically modified species or invasive alien species.	Requiring RSPO Certification is eligible for 7 points for Palm oil, because of RSPO criteria 7.1.2
		3	The financial institution makes a general commitment to avoid the introduction of genetically modified species or invasive alien species, but the policy is not very specific on what is expected of companies	Requiring companies to respect IFC Performance Standard 6 (Biodiversity Conservation and Sustainable Management of Living Natural Resources) is eligible for 7 points for all commodities
		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 species which are already widely in use	Requiring FSC Certification is eligible for 7 points for Timber and Pulp & paper
		7	The financial institution has a policy which makes explicit that the introduction and use of genetically modified species and invasive alien species is not allowed, or the financial institution requires adherence to international standards which include this prohibition.	
		10	The financial institution has a policy which makes explicit that the introduction and use of genetically modified species and invasive alien species is not allowed, by the company and its direct and indirect suppliers.	
10	Companies and their suppliers must minimise or eliminate the use of pesticides.	0	The financial institution has no policy on the use of pesticides.	Requiring RSPO Certification is eligible for 7 points for Palm oil, because of RSPO criteria 7.2
		3	The financial institution makes a general commitment to minimise the use of pesticides, but the policy is not very specific on what is expected of companies	Requiring companies to respect the FAO International Code of Conduct on the Distribution and Use of Pesticides or IFC Performance Standard 3 (Resource Efficiency and Pollution Prevention) is eligible for 7 points for all commodities
		5	The financial institution has a policy on the use of pesticides, but the policy makes exceptions, for instance for certain types of pesticides, or the policy does not strive for elimination where possible	Requiring FSC Certification is eligible for 7 points for Timber and Pulp & paper
		7	The financial institution has a policy which makes explicit that the use of all pesticides needs to be minimised, and eliminated where possible, or requires adherence to international standards which include this requirement.	
		10	The financial institution has a policy which makes explicit that the use of all pesticides needs to be minimised, and eliminated where possible, by the company and its direct and direct suppliers	
11	Companies and their suppliers must minimise pollution caused by their mills and other operations.	0	The financial institution has no policy on pollution	
		3	The financial institution makes a general commitment to minimise pollution, but the policy is not very specific on what is expected of companies	

Criteria		Scoring		Guidance
		5	The financial institution has a policy on minimising pollution, but the policy does not mention all forms of pollution (air, soil and water) or makes exceptions, for instance for certain types of pollution or technologies	
		7	The financial institution has a policy which makes explicit that all forms of pollution need to be minimised with the best available technologies, or requires adherence to international standards which include this requirement	
		10	The financial institution has a policy which makes explicit that all forms of pollution need to be minimised with the best available technologies, by the company and its direct and direct suppliers	
12	Companies and their suppliers must disclose targets and credible transition plans to mitigate their GHG emissions.	0	The financial institution has no policy on the GHG emissions of the companies it finances or invests in	
		3	The financial institution makes a general commitment that the companies it finances or invests in should mitigate their GHG emissions, but the policy is not very specific on what is expected of companies	
		5	The financial institution requires the companies it finances or invests in to measure and mitigate their GHG emissions, but the financial institution does not require a 1.5 °C degrees-aligned transition plan with short-term, medium-term and long-term targets based on a credible methodology	
		7	The financial institution requires the companies it finances or invests in to measure and mitigate their GHG emissions and develop a 1.5 °C degrees-aligned transition plan with short-term, medium-term and long-term targets based on a credible methodology, or requires adherence to international standards which include this requirement	
		10	The financial institution requires the companies it finances or invests in, as well as their direct and indirect suppliers, to measure and mitigate their GHG emissions and develop a 1.5 °C degrees-aligned transition plan with short-term, medium-term and long-term targets based on a credible methodology	
13		0	The financial institution has no policy on the principle of Free, Prior and Informed Consent (FPIC).	Please be aware that North-American financial institutions might use the wordings "Native peoples" and "First Nations communities" to refer to indigenous peoples.
		3	The financial institution makes a general commitment to the principle of Free, Prior and Informed Consent (FPIC) for indigenous peoples, but the policy is not very specific on what is expected of companies	Requiring RSPO Certification is eligible for 7 points for Palm oil

Criteria	Scoring		Guidance
<p>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.</p>	5	<p>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, but the financial institution does not provide any details on the procedures to be followed</p>	<p>Requiring companies to respect the UN Declaration on the Rights of Indigenous Peoples or the ILO Convention concerning Indigenous and Tribal Peoples or the Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forests in the Context of National Food Security (VGGT) or IFC Performance Standard 7 (Indigenous Peoples) is eligible for 7 points for all commodities</p> <p>Requiring FSC Certification is eligible for 7 points for Timber and Pulp &amp; paper</p>
	7	<p>The financial institution requires companies 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 deforestation-risk sectors.</p>	
	10	<p>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. 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 deforestation-risk sectors.</p>	
<p>14 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.</p>	0	<p>The financial institution has no policy on the rights of land users with customary land rights (other than indigenous peoples).</p>	<p>Please be aware that when financial institutions (and others) mention FPIC, this is usually only in the context of indigenous peoples and NOT other communities with customary land rights. Scores for this criterium can only be granted if the policy explicitly mentions communities with customary land rights.</p> <p>Requiring RSPO Certification is eligible for 7 points for Palm oil</p> <p>Requiring RTRS Certification is eligible for 7 points for Soy</p>
	3	<p>The financial institution makes a general commitment to the principle of Free, Prior and Informed Consent (FPIC) for land users with customary land rights (other than indigenous peoples), but the policy is not very specific on what is expected of companies</p>	
	5	<p>The financial institution requires companies to respect the right of all communities with customary land rights (other than 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 on the procedures to be followed</p>	
	7	<p>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 (other than indigenous peoples) 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 deforestation-risk sectors</p>	

Criteria		Scoring		Guidance
		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 (other than indigenous peoples) 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 deforestation-risk sectors	
15	Companies and their suppliers must establish human rights due diligence processes and monitoring systems.	0	The financial institution has no policy on the protection of human rights by the companies it finances or invests in.	<p>Requiring companies to respect the UN Guiding Principles or the OECD Guidelines for Multinational Enterprises or the UN Global Compact or IFC Performance Standard 1 (Assessment &amp; Management of Environmental and Social Risks and Impacts) is eligible for 7 points for all commodities</p> <p>Requiring companies to have a No Deforestation, No Peat, and No Exploitation (NDPE) policy is eligible for 7 points for all commodities</p>
		3	The financial institution makes a general commitment to the protection of human rights, but the policy is not very specific on what is expected of companies	
		5	The financial institution formulates requirements for companies to protect human rights, without explicitly requiring that companies establish human rights due-diligence processes and monitoring systems.	
		7	The financial institution has a policy which explicitly requires companies to establish human rights due-diligence processes and monitoring systems, or requires adherence to international standards which include this requirement	
		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	
16	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.	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.	<p>Requiring companies to respect the International Covenant on Economic, Social and Cultural Rights (ICESCR) is eligible for 7 points for all commodities</p> <p>Requiring FSC Certification is eligible for 7 points for Timber and Pulp &amp; paper</p>
		3	The financial institution makes a general commitment to the protection of economic, social and cultural rights of communities, but the policy is not very specific on what is expected of companies	
		5	The financial institution has a policy which formulates requirements for companies to protect economic, social and cultural rights of communities, but only some rights are mentioned or exceptions are made	
		7	The financial institution has a policy which explicitly requires companies to respect all economic, social and cultural rights of communities affected by their operations, or requires adherence to international standards which include this requirement	



Criteria		Scoring		Guidance
		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	
17	Companies and their suppliers must commit to the resolution of complaints and disputes through an open, transparent and consultative process.	0	The financial institution has no policy on access to remedy	Requiring RSPO Certification is eligible for 7 points for Palm oil, because of RSPO criteria 4.2
		3	The financial institution makes a general commitment to access to remedy, but the policy is not very specific on what is expected of companies	Requiring companies to respect the UN Guiding Principles or the OECD Guidelines for Multinational Enterprises or the UN Global Compact or IFC Performance Standard 1 (Assessment & Management of Environmental and Social Risks and Impacts) is eligible for 7 points for all commodities
		5	The financial institution has a policy which requires companies to provide access to remedy, without explicitly requiring that companies commit to the resolution of complaints and disputes through an open, transparent and consultative process	Requiring RTRS Certification is eligible for 7 points for Soy
		7	The financial institution has a policy which explicitly requires companies to commit to the resolution of complaints and disputes through an open, transparent and consultative process, or requires adherence to international standards which include this requirement	Requiring FSC Certification is eligible for 7 points for Timber and Pulp & Paper
		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 disputes through an open, transparent and consultative process	
18	Companies and their suppliers must maintain zero tolerance towards violence and the criminalization of land, environmental, and human rights defenders.	0	The financial institution has no policy on land, environmental, and human rights defenders.	Requiring RSPO Certification is eligible for 7 points for Palm oil, because of RSPO criteria 4.1
		3	The financial institution makes a general commitment to protect land, environmental, and human rights defenders, but the policy is not very specific on what is expected of companies	
		5	The financial institution requires companies to protect land, environmental, and human rights defenders, without explicitly requiring zero tolerance	
		7	The financial institution has a policy which explicitly requires companies to maintain zero tolerance towards violence and the criminalisation of land, environmental, and human rights defenders, or requires adherence to international standards which include this requirement	
		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 criminalisation of land, environmental, and human rights defenders	
19	Companies and their suppliers must not engage in forced	0	The financial institution has no policy on forced labour and child labour.	Requiring RSPO Certification is eligible for 7 points for Palm oil, because of RSPO criteria 6.4 and 6.6
		3	The financial institution makes a general	

Criteria		Scoring	Guidance	
	labour nor in child labour.		commitment against forced labour and child labour, but the policy is not very specific on what is expected of companies	Requiring FSC Certification is eligible for 7 points for Timber and Pulp & Paper
		5	The financial institution has a policy which requires companies not to make use of either forced labour or of child labour	Requiring companies to respect the OECD Guidelines for Multinational Enterprises or the UN Global Compact or IFC
		7	The financial institution has a policy which requires companies not to make use of forced labour and child labour, or it requires adherence to international standards which include this requirement	Performance Standard 2 (Labor and Working Conditions) or the ILO Declaration on Fundamental Principles and Rights at Work is eligible for 7 points for all commodities
		10	The financial institution has a policy which requires companies and their direct and indirect suppliers not to make use of forced labour and child labour, in their operations and in their supply chains.	Requiring RTRS Certification is eligible for 7 points for Soy
20	Companies and their suppliers must uphold the rights to freedom of association, collective bargaining and freedom from discrimination.	0	The financial institution has no policy on rights to freedom of association, collective bargaining and freedom from discrimination	Requiring RSPO Certification is eligible for 7 points for Palm oil, because of RSPO criteria 6.3
		3	The financial institution makes a general commitment to the rights to freedom of association, collective bargaining and freedom from discrimination, but the policy is not very specific on what is expected of companies	Requiring FSC Certification is eligible for 7 points for Timber and Pulp & Paper
		5	The financial institution requires companies to respect labour rights, but this policy does not mention explicitly the right to freedom of association, and/or the right to collective bargaining and/or the right to freedom from discrimination	Requiring companies to respect the OECD Guidelines for Multinational Enterprises or the UN Global Compact or IFC Performance Standard 2 (Labor and Working Conditions) or the ILO Declaration on Fundamental Principles and Rights at Work is eligible for 7 points for all commodities.
		7	The financial institution has a policy which explicitly requires companies 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	Requiring RTRS Certification is eligible for 7 points for Soy.
		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	

Criteria		Scoring		Guidance
21	Companies and their suppliers must pay at least a living wage.	0	The financial institution has no policy on living wages	<p>Requiring RSPO Certification is eligible for 7 points for Palm oil, because of RSPO criteria 6.5</p> <p>Requiring FSC Certification is eligible for 7 points for Timber and Pulp &amp; paper</p>
		3	The financial institution makes a general commitment to living wages, but the policy is not very specific on what is expected of companies	
		5	The financial institution requires companies to pay living wages, but does not clarify that this needs to be earned in a standard working week or the financial institution makes other exceptions	
		7	The financial institution has a policy which explicitly requires companies to pay a living wage within a standard working week, or it requires adherence to international standards which include this requirement	
		10	The financial institution has a policy which explicitly requires companies and their direct and indirect suppliers to pay a living wage within a standard working week	
22	Companies and their suppliers must protect the safety and health of workers.	0	The financial institution has no policy on occupational safety and health at the companies it finances or invests in	<p>Requiring RSPO Certification is eligible for 7 points for Palm oil, because of RSPO criteria 6.7.</p> <p>Requiring FSC Certification is eligible for 7 points for Timber and Pulp &amp; Paper</p> <p>Requiring companies to respect the OECD Guidelines for Multinational Enterprises or the ILO Convention Occupational Health and Safety or IFC Performance Standard 2 (Labor and Working Conditions) is eligible for 7 points for all commodities</p> <p>Requiring RTRS Certification is eligible for 7 points for Soy.</p>
		3	The financial institution makes a general commitment to occupational safety and health, but the policy is not very specific on what is expected of companies	
		5	The financial institution does require companies to ensure occupational safety and health, but does focus on a specific area of occupational safety and health or makes certain exceptions	
		7	The financial institution has a policy which explicitly requires companies to protect the safety and health of their workers in all aspects, or it requires adherence to international standards which include this requirement	
		10	The financial institution has a policy which explicitly requires companies and their direct and indirect suppliers to protect the safety and health of their workers in all aspects	
23	Companies and their suppliers must have a gender-sensitive zero-tolerance policy towards all forms of gender-based discrimination and violence.	0	The financial institution has no policy on gender-based discrimination	<p>Requiring RSPO Certification is eligible for 7 points for Palm oil, because of RSPO criteria 6.1.5</p> <p>Requiring companies to respect the Women's Empowerment Principles is eligible for 7 points for all commodities</p> <p>Requiring FSC Certification is eligible for 7 points for Timber and Pulp &amp; paper</p>
		3	The financial institution makes a general commitment against gender-based discrimination, but the policy is not very specific on what is expected of companies	
		5	The financial institution requires companies to abstain from gender-based discrimination, but this policy does not include all types of gender-based discrimination	

Criteria		Scoring		Guidance
		7	The financial institution has a policy which explicitly requires companies 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	
		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	
24	The financial institution has integrated sustainability objectives in its governance structure.	0	The financial institution has no sustainability objectives	10 points can only be assigned when sustainability objectives and risks are assigned to a specific Board member.
		3	The financial institution has sustainability objectives, but does not make clear how these objectives are integrated in its governance structure	
		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.	
		7	The financial institution has made two 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.	
		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.	
25	The financial institution is transparent on the actions through which its ESG policies are implemented and enforced.	0	The financial institution does not disclose how its ESG policies are implemented.	<p>Important actions in this respect are:</p> <ul style="list-style-type: none"> <li>clearly communicating their sustainability expectations to deforestation-risk companies and the general public;</li> <li>screening of all deforestation-risk companies on a regular basis via a credible, transparent natural ecosystem monitoring system;</li> </ul>
		3	The financial institution discloses a general description of the implementation of its ESG policies, but does not elaborate on any of the important actions (see next column)	
		5	The financial institution discloses a description of the implementation of its ESG policies, in which it elaborates on one to three important actions (see next column)	

Criteria	Scoring		Guidance
	7	The financial institution discloses a description of the implementation of its ESG policies, in which it elaborates on at least four important actions (see next column)	<ul style="list-style-type: none"> <li>● 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;</li> <li>● 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;</li> <li>● formalizing agreements made with deforestation-risk companies in clauses in loan contracts;</li> <li>● monitoring the companies' progress with implementing the agreed action plans via credible independent verification systems;</li> <li>● encouraging further steps by providing sustainability performance linked loans;</li> <li>● voting on deforestation-related shareholder resolutions and voting against board members that refuse to act; and</li> <li>● 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.</li> </ul>
	10	The financial institution discloses a description of the implementation of its ESG policies, in which it elaborates on at least four important actions (see next column) and provides details on how these actions influence companies in deforestation-risk sectors	
26 The financial institution applies its ESG policies to the entire corporate group to which its client or investee company belongs to	0	The financial institution does not have ESG policies	Please be aware that this criteria does <b>not</b> concern the corporate group of the financial institution itself. It is about applying the financial institution's policies not only to the client it is financing or to the investee company, but also to its parents, sister companies, affiliates, etc.
	3	The financial institution does have ESG policies, but does not specify what the policies mean for the entire corporate group to which the client or investee company belongs	
	5	The financial institution mentions that in one of its ESG policies that the policy also applies to the entire corporate group to which the client or investee company belongs	
	7	The financial institution clarifies that all its ESG policies also apply to the entire corporate group to which the client or investee company belongs	
	10	The financial institution clarifies that all its ESG policies also apply to the entire corporate group to which the client or investee company belongs, clarifying how this corporate group is identified	

Criteria		Scoring		Guidance
27	The financial institution is transparent on its investments and financings in deforestation-risk sectors.	0	The financial institution does not publish a sectoral break-down of its investments and financings	
		3	The financial institution does publish a sectoral break-down of its investments and financings, but this break-down is not detailed enough to get a good indication of the exposure to deforestation-risk commodity sectors	
		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 exposure to deforestation-risk commodity sectors	
		7	The financial institution publishes the names of companies active in deforestation-risk commodity sectors to which it is providing financing or in which it is investing.	
		10	The financial institution publishes the names of companies active in deforestation-risk commodity sectors to which it is providing financing or in which it is investing, together with assessments of how these companies live up to the ESG policies of the financial institution	
28	The financial institution discloses its financed GHG emissions related to Agriculture, Forestry and Other Land Use.	0	The financial institution does not disclose any data on its financed emissions	
		3	The financial institution discloses data on its financed emissions, but does not provide disaggregated figures for Agriculture, Forestry and Land Use (AFOLU) emissions	
		5	The financial institution discloses data on its financed AFOLU emissions, which are reduced because the financial institution has purchased carbon offsets	
		7	The financial institution discloses data on its financed AFOLU emissions and explicitly excludes purchasing carbon offsets to compensate its financed emissions	
		10	The financial institution discloses data on its financed AFOLU emissions and explicitly excludes purchasing carbon offsets to compensate its financed emissions. The AFOLU emissions are further broken down in sector-specific data for the deforestation-risk commodities that the financial institution has significant exposure to	

Criteria		Scoring		Guidance
29	The financial institution discloses targets and a credible transition plan to mitigate GHG emissions from Agriculture, Forestry and Land Use across its portfolio.	0	The financial institution does not disclose targets nor transition plans to reduce its financed emissions	
		3	The financial institution does disclose targets to reduce its financed emissions, but has no disaggregated target for Agriculture, Forestry and Land Use (AFOLU) emissions	
		5	The financial institution does disclose a specific target to reduce its Agriculture, Forestry and Land Use (AFOLU) emissions, but this target is not further elaborated in a transition plan with short-term, medium-term and long-term goals, and with a clear description of instruments and actions	
		7	The financial institution does disclose a transition plan with short-term, medium-term and long-term goals to reduce its Agriculture, Forestry and Land Use (AFOLU) emissions, but this transition plan relies partly on carbon offsets to reduce financed emissions or does not cover scope 3 emissions or does not have specific sector-specific targets for deforestation-risk sectors the financial institution has significant exposure to	
		10	The financial institution does disclose a transition plan with short-term, medium-term and long-term goals to reduce its Agriculture, Forestry and Land Use (AFOLU) emissions. This transition plan does not rely on carbon offsets to reduce financed emissions, does cover scope 3 emissions and does have specific sector-specific targets for deforestation-risk sectors the financial institution has significant exposure to	
30	The financial institution is transparent on its engagements with companies in deforestation-risk sectors.	0	The financial institution is not transparent on its engagements with companies	Deforestation-risk sectors are: beef, palm oil, pulp and paper, rubber, soy and timber. Transparency is only required for the sectors in which the financial institution actually invests, as is shown on the tab "Financing & investments" of the tool.
		3	The financial institution provides some information on its engagements with companies, but this does not include any information on any company operating in a deforestation-risk sector	
		5	The financial institution provides some information on its engagements with one or two companies operating in a deforestation-risk sector	
		7	The financial institution provides detailed information on its engagements with one or two companies operating in a deforestation-risk sector, such as names of companies, topics, or results	
		10	The financial institution provides detailed information on its engagements with at least five companies operating in a deforestation-risk sector, such as names of companies, topics, or results	



Criteria		Scoring		Guidance
31	The financial institution commits to a transparent and effective grievance mechanism regarding its financing of, or investments in, companies in deforestation-risk sectors.	0	The financial institution does not have, or does not participate in, a grievance mechanism which is open for communities and individuals that have been adversely impacted by the activities of companies that are financed by the financial institution	Please be aware that an internal complaint mechanism inside the financial institution is not enough for 5 or more points. The financial institution should refer to an external complaint mechanism.
		3	The financial institution does have an internal grievance mechanism which is open for communities and individuals that have been adversely impacted by the activities of companies that are financed by the financial institution	
		5	The financial institution refers complaints from communities and individuals that have been adversely impacted by the activities of companies that are financed by the financial institution to external grievance mechanisms such as the OECD National Contact Points	
		7	The financial institution refers complaints from communities and individuals that have been adversely impacted by the activities of companies that are financed by the financial institution to external grievance mechanisms such as the OECD National Contact Points and has clearly committed to respect and cooperate in good faith with these grievance mechanisms	
		10	The financial institution has established an external transparent and effective grievance mechanism complaints from communities and individuals that have been adversely impacted by the activities of companies that are financed by the financial institution, or has committed to respect and cooperate in good faith with all State-based grievance mechanisms	
32	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.	0	The financial institution has no policy on the legality of operations and commodity supplies of the companies it is financing or investing in	Requiring RSPO Certification is eligible for 7 points for Palm oil, because of RSPO criteria 2.1.
		3	The financial institution makes a general commitment on the legality of operations and commodity supplies of the companies it is financing or investing in, but the policy is not very specific on what is expected of companies	Eligible for 10 points for Soy and Beef if requiring from Brazilian companies to show that they and their direct and indirect suppliers have ownership rights for their operation according to the Cadastro Ambiental Rural (CAR), that they are complying with the Forest Code (Law no. 12.651), that they 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.
		5	The financial institution has a policy on the legality of operations and commodity supplies of the companies it is financing or investing in, but does not make clear how companies are screened on their adherence to this policy	
		7	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	Requiring FSC Certification is eligible for 7 points for Timber and Pulp & paper  Requiring RTRS Certification is eligible for 7 points for Soy

Criteria		Scoring		Guidance
		10	The financial institution has a policy which explicitly requires companies and their direct and indirect suppliers 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	
33	Companies and their suppliers must ensure supply chain transparency and traceability.	0	The financial institution has no policy on supply chain transparency and traceability	Requiring FSC Certification is eligible for 7 points for Timber and Pulp & paper
		3	The financial institution makes a general commitment to supply chain transparency and traceability, but the policy is not very specific on what is expected of companies	Requiring RTRS Certification is eligible for 7 points for Soy
		5	The financial institution has a policy on supply chain transparency and traceability, but the policy does not explicitly require companies to publicly disclose their supply chain	
		7	The financial institution has a policy which explicitly requires companies to publicly disclose their first-tier supply chain, ensuring full traceability to their direct suppliers' farms, plantations or land-based operations. Or it requires adherence to international standards which include this requirement	
		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 deforestation-risk commodities it buys, processes and/or sells back to a specific operation of one of its (indirect) suppliers	
34	Companies and their suppliers must publish geo-referenced maps of all the concession areas and farms under their management.	0	The financial institution has no policy on concession maps	Requiring FSC Certification is eligible for 7 points for Timber and Pulp & paper
		3	The financial institution makes a general commitment to transparency on concession areas, but the policy is not very specific on what is expected of companies	Requiring RSPO Certification is eligible for 7 points for Palm oil
		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	
		7	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. Or it requires adherence to international standards which include this requirement	

Criteria		Scoring		Guidance
		10	The financial institution has a policy which explicitly requires companies and their direct and indirect suppliers to publish geo-referenced maps of all their concession areas and farms under their management, including those of their subsidiaries	
35	Companies must publish Environmental and Social Impact Assessments for all their operations.	0	The financial institution has no policy on impact assessments	Requiring RSPO Certification is eligible for 7 points for Palm oil, because of RSPO criteria 3.4
		3	The financial institution makes a general commitment to environmental and social impact assessments, but the policy is not very specific on what is expected of companies	Requiring companies to respect the Voluntary Guidelines on Biodiversity-Inclusive Impact Assessments or IFC Performance Standard 1 (Assessment & Management of Environmental and Social Risks and Impacts) is eligible for 7 points for all commodities
		5	The financial institution has a policy which expects companies to make environmental and social impact assessments when they are starting new operations or expanding their operations, but the policy does not require companies to publish the outcomes	Requiring FSC Certification is eligible for 7 points for Timber and Pulp & paper
		7	The financial institution has a policy which explicitly requires companies to publish environmental and social impact assessments for all their operations, or it requires adherence to international standards which include this requirement.	Requiring RTRS Certification is eligible for 7 points for Soy
		10	The financial institution has a policy which explicitly requires companies and their direct and indirect suppliers to publish environmental and social impact assessments for all their operations, or it requires adherence to international standards which include this requirement.	
36	Companies and their suppliers must not get engaged in corruption, bribery and financial crimes.	0	The financial institution has no policy on corruption and bribery, or its policies on corruption and bribery do not cover the companies it is financing or investing in.	Requiring companies to respect the OECD Guidelines for Multinational Enterprises or the UN Global Compact or the UN Convention Against Corruption is eligible for 7 points for all commodities
		3	The financial institution makes a general commitment on corruption and bribery by the companies it is financing or investing in, but the policy is not very specific on what is expected of companies	Requiring FSC Certification is eligible for 7 points for Timber and Pulp & paper
		5	The financial institution has a policy on corruption and bribery by the companies it is financing or investing in, but this policy only states that the financial institution does not want to be involved in any financial transaction related to corruption, bribery and financial crimes	Requiring RSPO Certification is eligible for 7 points for Palm oil, because of RSPO criteria 1.2
		7	The financial institution has a policy which explicitly requires companies to implement clear anti-corruption policies which ensure that the company will not get engaged in corruption, bribery and financial crimes, or it requires adherence to international standards which include this requirement	

Criteria		Scoring		Guidance
		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, or it requires adherence to international standards which include this requirement	
37	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.	0	The financial institution has no tax policy or its tax policy does not cover the tax behaviour of the companies it is financing or investing in	Requiring companies to respect the OECD Guidelines for Multinational Enterprises is eligible for 7 points for all commodities
		3	The financial institution makes a general commitment on tax evasion and tax avoidance, but the policy is not very specific on what is expected of companies	
		5	The financial institution has a policy on the tax behaviour of the companies it is financing or investing in, but this policy does not cover tax avoidance or it only specifies that the financial institution does not want to be involved in financial deals which have the purpose of tax avoidance or tax evasion	
		7	The financial institution has a policy which explicitly requires companies 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.	
		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.	
38	Companies and their suppliers must publish their group structure and country-by-country data.	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.	
		3	The financial institution makes a general commitment to country-by-country data, but the policy is not very specific on what is expected of companies	
		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 not both, or without being very specific about the data required	
		7	The financial institution has a policy which explicitly requires the companies to publish their group structure and country-by-country data, describing specifically which data should be published	
		10	The financial institution has a policy which explicitly requires the companies and their direct and indirect suppliers to publish their group structure and country-by-country data, describing specifically which data should be published	

## 7 Quick checklist

Table 42 provides a quick checklist on which certification schemes and standards, when included as pre-conditions for financings and/or investments in the policies of the financial institution could be eligible for a 7 point score for one or more commodities.

**Table 42 Quick checklist of certification schemes and standards eligible for 7 points**

Criteria	RSPO*	RTRS	FSC **	IFC PS	NDPE
1	Palm oil	Soy		All commodities	All commodities
2	Palm oil	Soy		All commodities	All commodities
3	Palm oil				All commodities
4			Pulp & paper, Timber	All commodities	
5	Palm oil	Soy	Pulp & paper, Timber	All commodities	All commodities
6	Palm oil				All commodities
7	Palm oil	Soy	Pulp & paper, Timber		
8	Palm oil	Soy	Pulp & paper, Timber	All commodities	
9	Palm oil		Pulp & paper, Timber	All commodities	
10	Palm oil		Pulp & paper, Timber	All commodities	
11					
12					
13	Palm oil		Pulp & paper, Timber	All commodities	
14	Palm oil	Soy			
15				All commodities	All commodities
16			Pulp & paper, Timber		
17	Palm oil	Soy	Pulp & paper, Timber	All commodities	
18	Palm oil				
19	Palm oil	Soy	Pulp & paper, Timber	All commodities	
20	Palm oil	Soy	Pulp & paper, Timber	All commodities	
21	Palm oil		Pulp & paper, Timber		
22	Palm oil	Soy	Pulp & paper, Timber	All commodities	
23	Palm oil		Pulp & paper, Timber		
24					
25					
26					
27					
28					
29					
30					
31					

Criteria	RSPO*	RTRS	FSC **	IFC PS	NDPE
32	Palm oil	Soy	Pulp & paper, Timber	All commodities	
33		Soy	Pulp & paper, Timber		
34	Palm oil		Pulp & paper, Timber		
35	Palm oil	Soy	Pulp & paper, Timber		
36	Palm oil		Pulp & paper, Timber		
37					
38					

\* If the financial institution requires RSPO or ISPO certification, 5 points can be awarded for the same criteria as listed in this column. Only requiring ISPO certification is not eligible for points.

\*\* If the financial institution requires FSC or PEFC certification, 5 points can be awarded for the same criteria as listed in this column. Only requiring PEFC certification is not eligible for points.

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