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CONCERNING: ACTION PLAN OF THE CISL'S REPORT "BANKING BEYOND DEFORESTATION"

Nijmegen, March 08 2021

Dear reader,

We welcome the initiative of the Cambridge Institute for Sustainability Leadership (CISL) with the publication of the paper "Banking beyond deforestation" to report on the six years of the Soft Commodities Compact, the lessons learned from the commitment and the actions member banks could take next.[1] Private sector banks, including Compact banks, remain seriously exposed to deforestation risks from providing financial support to commodities companies engaged in destructive practices, therefore concrete measures remain necessary to achieve the original goal of the Soft Commodities Compact of achieving deforestation-free supply chains.[2]

We understand that the CISL is open for the inclusion of NGOs and other stakeholders in the development and implementation of the action plan. With this letter our organisations wish to share with you our observations on the report.

We have structured our comments per action point of your report but an initial and general comment to be added from the onset is that, while the report states that social themes are out of its scope, we believe it is fundamental that the Action Plan adopts a holistic approach that also encompasses social factors and include these themes in any actions meant to reduce deforestation. Any debate on forests, soft commodity supply and finance should not be dissociated from social issues.

Action 1: Align anti-deforestation policies to a 'best practice' standard and support improvements to supply traceability [Alignment and traceability]

Action 1 outlines the need for an aligned position amongst banks connected to supply chains exposed to deforestation risks. We wish to emphasize that this should apply to any forest-risk commodity, and not be limited to the commodities that were addressed by the Soft Commodities Compact, namely soy, palm oil, pulp and paper, and beef.

Furthermore, Action 1 emphasizes the need to align anti-deforestation policies to a "best practice" standard, but it lacks an explanation on what a "best practice" would consist of; a clear definition of what the best practice would entail is critical for assuring bank compliance, and for assuring it adequately meets the scale of the deforestation crisis. "Best practice" should include, at minimum, the adoption of NDPE (No Deforestation, No Peatland, and No Exploitation) policies.[3]

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[1] See "Banking beyond deforestation" by the Cambridge Institute for Sustainability Leadership. https://www.cisl.cam.ac.uk/resources/publication-pdfs/bankingbeyonddeforestation-cisl-jan2021.pdf
[2] See "Soft Commitments, Hard Lessons", by BankTrack. https://www.banktrack.org/download/soft_commitments_hard_lessons_an_analysis_of_the_soft_commodities_compact/201130_scc_report_3.pdf
[3] See the "Keep forests standing", by Rainforest Action Network. https://www.ran.org/wp-content/uploads/2020/03/RAN_Keep_Forests_Standing_vWEB.pdf

As is recognized in the CISL report, “several banks were concerned about the extent to which certification could be traced to impact and the prevention of deforestation”. The mere verification of certification schemes failed to prevent deforestation. These voluntary sustainability standards have been subject to criticism by organizations worldwide due to their failure in tackling social and environmental risks related to each commodity supply chain.[4] Banks should therefore be encouraged to move beyond certification schemes and adopt robust due diligence frameworks that encompass all stages of the commodities supply chains, thus properly managing and mitigating deforestation risks.

Ultimately, best practice should ensure that impacted communities are able to identify whether a bank is connected to companies or operations in its area. Without this basic information, communities have no way of accessing their rights under those policies or alerting banks to concerns to allow preventative action on forest-related risks.

A “best practice” should also include zero tolerance for threats and attacks against forest defenders, whether from indigenous groups or local communities, who are frequently persecuted and even executed for defending their territories from corporate abuse.[5]

Additionally, in Action 1, the suggested pathways seem to focus only on the supply chain of a client, and not on the regional context. This may not adequately address leakage issues: a comprehensive shift to deforestation-free methods is necessary to prevent the risk that avoided deforestation in one location increases deforestation in another. A key problem here is the greenwashing of commodities before they enter the supply chain monitoring system. The pathways of Action 1 do not seem to address that issue.

Action 2: Structure financing facilities that offer benefits to producers of deforestation-free and forest restorative soft commodities [Scaling sustainable supply]

Action 2 is an important point that could also consider including other measures that reduce, for example, (food) waste and reduce consumption as a way to reduce demand and thus the pressure on land and forests. Global population is increasing and so is demand for food, and agricultural land is expanding to meet this demand.[6] This places increased pressure on forests for conversion to croplands and pasture. Food waste and over consumption are therefore key issues to address in these key commodities sectors. However, it is important to highlight that the agro-commodity market expansion is not only driven by the food demand or growing population. There is an extensive range of consumer goods products that are manufactured with the use of forest-risk commodities and produced at the expense of forests, peatlands, and human rights. Thus, increased competition for agricultural markets is a key driver of pressure on natural resources, including the clearing of forests to access the underlying land and expand agribusiness production.

Regarding the financial benefits for the scaling of soft commodity supply chains as outlined in the report, it is critical to establish clear criteria on the type of activities that contribute to the protection and restoration of natural forests. Such criteria should exclude activities such as afforestation with monocultures. A forest is a complex, biodiversity-rich, and self-regenerating system, which should not be confused with monoculture tree plantations.

Action 3: Set time-bound targets that enable progress toward deforestation reversal, with performance measured and managed [Measurable targets]

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[4] Issues concerning the certification schemes for each commodity supply chains are outlined in the “Soft Commitments, Hard Lessons” report: https://www.banktrack.org/download/soft_commitments_hard_lessons_an_analysis_of_the_soft_commodities_compact/201130_scc_report_3.pdf.

[5] See the “Measured grave – the deaths in the fight for land in Brazil” at https://forestsandfinance.org/blog/measured-grave-the-deaths-in-the-fight-for-land-in-brazil/

[6] See World Resources Institute’s “Reduce Growth in Demand for Food and other Agricultural Products”: https://research.wri.org/wrr-food/course/reduce-growth-demand-food-and-other-agricultural-products-synthesis

Action 3 suggests that two objectives are established (outlined below), proposing for each of them specific key results that would demonstrate the progress towards the objectives:

1. Bank finance and advisory services are only associated with soft commodity supply that is deforestation-free or forest restorative.

2. Volume of deforestation-free and forest restorative soft commodities has materially increased, to the extent that the amount of deforestation connected to soft commodity production globally is in decline.

While the proposed key results for objective 1 refers to the alignment of relevant risk management policies to a best practice anti-deforestation standard, it again does not explain what this standard would consist of.

A key concept acknowledged in the report is the need to move beyond "zero net deforestation", which could also be highlighted here as a key result for banks to achieve: to implement clear zero deforestation commitments and policies that protect all remaining natural forests and ensure a halt to the conversion of forested land for plantations or agricultural use. This could be achieved with the adoption of 'No go' policies for protected areas, respect for Free, Prior and Informed Consent of Indigenous Peoples and local communities, and the implementation of NDPE (No Deforestation, No Peatland and No Exploitation) approaches, making NDPE policies mandatory for clients in all forest-risk commodity supply chains and ensuring that these are independently verified and reporting on the progress of their implementation.

Finally, the Soft Commodities Compact itself had a clear deadline: to address deforestation in the companies supply chains by the end of 2020. What in practice happened, however, is that banks have taken a flexible approach to this deadline, allowing clients to set time-bound plans for their alignment with the banks' policies with deadlines beyond the final year of the Compact. Time-bound targets must be concrete and precise, as well as being attached to meaningful consequences: if the engagement of banks with their clients is failing, non-compliant clients should be excluded from banks' portfolios.

Action 4: Identify a team responsible for delivering time-bound targets, with C-suite accountability and expertise to implement [Accountability]

A core challenge of the Action Plan is that in the Soft Commodities Compact there was no external accountability for banks if they break, or do not meet, their commitments on deforestation and forest-related human rights. Creating a clear accountability structure is key to ensuring that commitments are met, and it should include as key factors the disclosure of forest-risk clients and the establishment of effective grievance mechanisms. For banks to be accountable for their no-deforestation policies, they should ensure that customers in the high-risk commodities sectors disclose details, including names of financed clients and projects for new credit relationships.

Furthermore, banks should ensure that they have grievance and accountability mechanisms in place to ensure affected communities and civil society organisations can raise complaints and seek resolution from them, as part of an enhanced approach to due diligence and risk management. It is also vital for those working within banks - as they can point to external accountability to leverage the need for strong and urgent action today. The absence of an accountability structure undermined the credibility of the SCC commitments and must be addressed in the Action plan to avoid repetition of this failure.

Action 5: Advocate for government action that makes deforestation commercially unattractive or illegal [Systemic support]

It is critical that the CISL, BEI and SCC adopting banks publicly support the principle that laws tackling deforestation do include the financial sector as well. UK-based banks like Barclays, Lloyds Banking Group, NatWest, and Standard Chartered could play a positive role in supporting the need to include finance in legislation to address the UK's contribution to global deforestation - as was recommended by the UK Global Resource Initiative taskforce. Similarly, EU-based banks could publicly support the European Parliament's recommendations on similar measures.

Furthermore, the Action Plan proposed in the paper highlights the role of banks as facilitators, the importance of collaboration and the participation of "other stakeholders" in the transition to deforestation-free supply chains. It is of utmost relevance to consider the broader collaboration that the action plan can have. This would include the role that Indigenous Peoples and forest-dwelling communities have in safeguarding deforestation-free supply chains, which was not considered in mapping the roles of important actors in this process. We believe it is unattainable to effectively tackle the deforestation crisis without having these voices and expertise heard and actively involved in this process.

More than "supporting client transitions away from deforestation risk commodities", banks can play an active role in divesting and excluding companies that remain non-compliant with their policies after a set deadline. In the conversations we held with banks, we often got the response that the control of companies' activities are outside banks' scope and sphere of influence, and that their role is limited to the engagement with clients in order to improve their practices.

However, banks can demonstrate complicity with destructive practices when not taking meaningful steps to exclude clients that are failing to comply with their policies or are unable to demonstrate if their high-risk supply chains are deforestation free, or when continuing to finance high-risk companies without proper transparency - even when banks are presented with comprehensive data on their exposure to deforestation and human rights abuses. The Action Plan also lacks a position on the need for banks to remedy and redress deforestation practices and human rights abuses that are recurrent in the supply chains of these commodity companies.

We hope that the observations above are useful in further shaping the action plan. We would be happy to discuss further the issues detailed in this letter.

Yours sincerely,

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