

# INVESTOR INITIATIVE FOR SUSTAINABLE FORESTS

## ENGAGEMENT RESULTS

# THE SIX PRINCIPLES

## PREAMBLE TO THE PRINCIPLES

As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

- 1 We will incorporate ESG issues into investment analysis and decision-making processes.
- 2 We will be active owners and incorporate ESG issues into our ownership policies and practices.
- 3 We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- 4 We will promote acceptance and implementation of the Principles within the investment industry.
- 5 We will work together to enhance our effectiveness in implementing the Principles.
- 6 We will each report on our activities and progress towards implementing the Principles.



## PRI's MISSION

We believe that an economically efficient, sustainable global financial system is a necessity for long-term value creation. Such a system will reward long-term, responsible investment and benefit the environment and society as a whole.

The PRI will work to achieve this sustainable global financial system by encouraging adoption of the Principles and collaboration on their implementation; by fostering good governance, integrity and accountability; and by addressing obstacles to a sustainable financial system that lie within market practices, structures and regulation.

### PRI DISCLAIMER

The information contained in this report is meant for the purposes of information only and is not intended to be investment, legal, tax or other advice, nor is it intended to be relied upon in making an investment or other decision. This report is provided with the understanding that the authors and publishers are not providing advice on legal, economic, investment or other professional issues and services. PRI Association is not responsible for the content of websites and information resources that may be referenced in the report. The access provided to these sites or the provision of such information resources does not constitute an endorsement by PRI Association of the information contained therein. Except where expressly stated otherwise, the opinions, recommendations, findings, interpretations and conclusions expressed in this report are those of PRI Association, and do not necessarily represent the views of the contributors to the report or any signatories to the Principles for Responsible Investment (individually or as a whole). It should not be inferred that any other organisation referenced on the front cover of, or within, the report, endorses or agrees with the conclusions set out in the report. The inclusion of company examples, or case studies written by external contributors (including PRI signatories), does not in any way constitute an endorsement of these organisations by PRI Association or the signatories to the Principles for Responsible Investment. The accuracy of any content provided by an external contributor remains the responsibility of such external contributor. While we have endeavoured to ensure that the information contained in this report has been obtained from reliable and up-to-date sources, the changing nature of statistics, laws, rules and regulations may result in delays, omissions or inaccuracies in information contained in this report. PRI Association is not responsible for any errors or omissions, for any decision made or action taken based on information contained in this report or for any loss or damage arising from or caused by such decision or action. All information in this report is provided "as-is" with no guarantee of completeness, accuracy or timeliness, or of the results obtained from the use of this information, and without warranty of any kind, expressed or implied.

# CONTENTS

ABOUT THIS REPORT	5
INTRODUCTION	6
ENGAGEMENT RESULTS	8
RECOMMENDATIONS	16
NEXT STEPS	17
APPENDIX – BENCHMARK INDICATORS	18

# ACKNOWLEDGEMENTS

The PRI would like to thank the advisory committee members of the PRI-Ceres Investor Initiative for Sustainable Forests for their contribution to this report:

- Arjan Rujis, ACTIAM
- Greta Fearman, ACTIAM
- Yasmine Svan, Legal & General Investment Management
- Vemund Olsen, Storebrand Asset Management

# ABOUT THIS REPORT

This report summarises the outcomes of the Investor Initiative for Sustainable Forests (IISF). The partnership between the PRI and Ceres aimed to tackle commodity-driven deforestation within cattle and soybean supply chains at investee companies. We did this by coordinating an action-driven coalition of 44 investors with US\$6.8trn in assets under management.

We also wanted to address ESG issues related to soft commodity production, such as poor working conditions, land rights and impact on indigenous peoples.

The engagement tracked investee companies' policies, implementation, disclosure and performance on deforestation-related practices each year between 2017 and 2020, and the results are presented in this document. This report also sets out recommendations for continuing stewardship activities in this area.

## PREVIOUS WORK

- In 2018, 58 PRI signatories set out what they would expect of companies in the [cattle](#) and [soybean](#) supply chains.
- [A 2019 PRI report](#), produced in partnership with the Stockholm Environment Institute, provides an overview of the science behind the Amazon rainforest's significance as a climatic tipping point.
- Various other resources, including previous webinars and blogs on [how deforestation can contribute to pandemic risk](#), and [the cost of deforestation for indigenous people](#), can be found on the PRI's [sustainable land use webpage](#).



# INTRODUCTION

## WHY TACKLE COMMODITY-DRIVEN DEFORESTATION?

Forests are essential to the planet's ability to regulate climate and water cycles, host biodiversity, prevent soil erosion, and directly sustain the lives of 1.3 billion people. Deforestation is often linked to human rights abuses, such as land grabbing and modern slavery.

Agricultural expansion accounts for 80% of deforestation worldwide. The World Resources Institute's [Global Forest Review](#) identified cattle, palm oil and soy as the commodities most likely to replace forested land between 2001 and 2015. Cattle pasture occupied 45.1 million hectares (Mha) of deforested land, accounting for 36% of agriculture-related tree cover loss. Oil palm (the area that the oil palm trees occupy) ranked second (10.5 Mha), followed by soy (8.2 Mha).

[The State of the World's Forests report](#), written by the Food and Agriculture Organization of the United Nations, highlights that deforestation is continuing at alarming rates, although with marked regional differences. Continued investor action is crucial to ensure commodity production is decoupled from environmental degradation and human rights abuses.

## IISF OBJECTIVES AND COMPANY ASKS

The IISF's overall objectives were to:

- **Improve transparency and quality of disclosure** on the source and materiality of certain commodities, and how they move through the supply chain;
- **Achieve full commitment by companies** to eliminate deforestation and human rights violations throughout the entire supply chain;
- **Improve traceability and supplier verification approaches** for deforestation-risk commodities throughout the supply chain; and,
- **Encourage collaboration** to develop standards, policies, certifications, and/or tools to facilitate deforestation-free supply chains.

More specifically, companies across cattle and soy value chains were asked by investors to improve their practices in four key areas:

- **Policy:** A publicly-disclosed, commodity-specific deforestation policy with a quantifiable, time-bound commitment covering the entire supply chain and sourcing geographies.
- **Traceability:** A traceability commitment that is time-bound, quantifiable and covers direct and indirect suppliers, tracking the percentage of commodity procurement that is traceable to product origin.
- **Supplier assurance:** A publicly disclosed process for monitoring and verifying supplier compliance with their no-deforestation policy and a clear process for non-compliant suppliers.
- **Disclosure:** Public disclosure of the percentage of commodity sourced in line with their no-deforestation policy.

## A BRIEF TIMELINE OF THE IISF

The diagram below summarises key IISF milestones, with **blue** boxes showing IISF-led actions, and **grey** boxes representing significant external events.

Sep 2017 - Aug 2018	Sep 2018 - Aug 2019	Sep 2019 - Aug 2021
Investor letters sent to cattle supply chain companies	Public launch of the <a href="#">Investor Expectation Statement</a> on deforestation in cattle supply chains	Investor statement on deforestation and forest fires in the amazon
IISF expanded to include soy value chain companies	Public launch of the <a href="#">Investor Expectation Statement</a> on deforestation in soybean supply chains	Roundtable discussion with key players in the meat processing industry
Cerrado Manifesto published. Statement of Support published by companies and investors		Letter to processor segment in the cattle supply chain, requesting traceability commitments
		Letter to soy traders reiterating policy and traceability policy asks
		Open letter to Brazilian embassies urging government action on deforestation
		<a href="#">Investor Policy Dialogue on Deforestation</a> begins

## METHODOLOGY

A total of 44 investors engaged with 43 companies (for each company there was at least one lead investor) across the cattle and soybean value chains.<sup>1</sup> Various segments of the supply chain were engaged, including consumer goods / staples (10), clothing and apparel (2), retail / food service (19), as well as traders and processors (12). The geographic focus of the engagement was primarily Latin America and specifically Brazil, due to its key role in commodity-driven deforestation.

To assess company progress, benchmark studies were conducted by consultants Aidenvironment each year between 2017 and 2020. Company practices were assessed across four categories: (1) policy and strategy, (2) implementation, (3) disclosure and (4) performance. The latest full set of benchmark indicators is included in the appendix.

We assessed overall progress using 2017-2020 data for the 37 companies which were engaged throughout. Additional companies were added and others removed throughout the IISF – these companies were not included.

To assess progress on specific engagement objectives, a selection of indicators per category were analysed.

Aidenvironment scored companies through a systematic approach, based on publicly available information, including all relevant policy documents, annual and sustainability reports, progress reports and sustainability dashboards, press releases and news items. The consultants checked consistency through targeted Google searches, membership lists of relevant multi-stakeholder initiatives and company scores across other appropriate benchmarks.

The IISF project was expanded in its first year to include soy as well as cattle supply chain companies, and the benchmark indicators were also changed. Therefore, only benchmark data from 2018 onwards was used to indicate progress on individual indicators, but we are using 2017 data for average company scores. Scores should be taken as a general snapshot of company performance.

Attributing change in company behaviour to investor engagement is extremely difficult and we do not attempt to do so. This is due to the complexity of deforestation, and the challenge of linking investor engagement to specific corporate actions when there are multiple pressures on companies (e.g., market dynamics, consumer awareness, changes in legislation etc.). Results are nonetheless presented as a proxy or indication of progress in those companies that were engaged.<sup>2</sup>

<sup>1</sup> Of the 43 companies engaged, 13 were exposed to the cattle supply chain only, 16 to the soy supply chain only, and 14 to both

<sup>2</sup> Please note: where table rows do not add up to 100%, this is due to decimal rounding in Excel

# ENGAGEMENT RESULTS

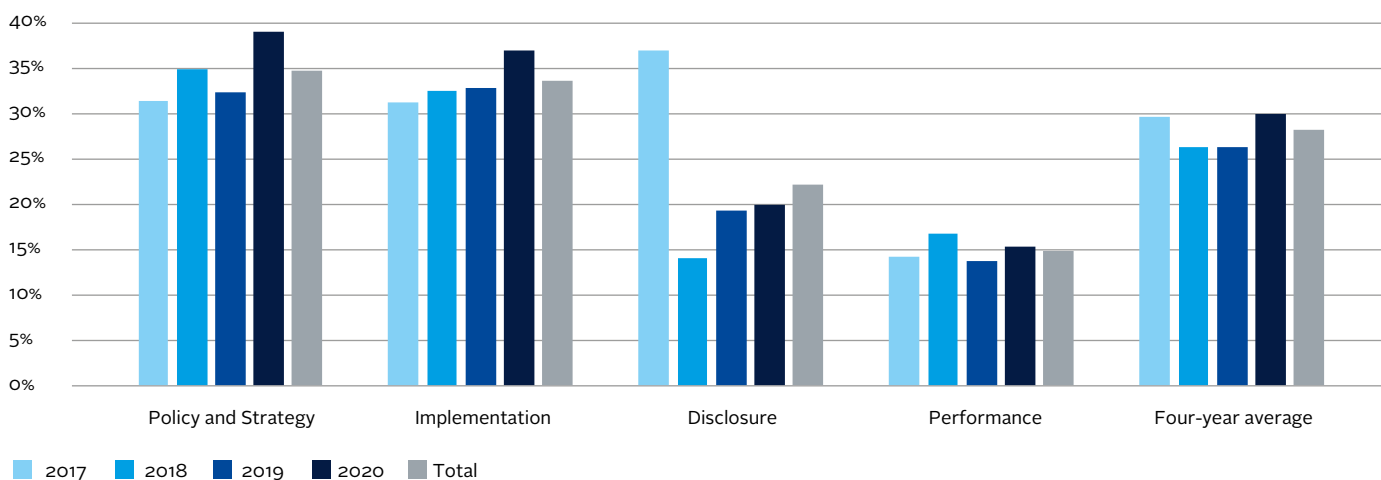
## OVERALL RESULTS

At the overall and individual category level (policy and strategy, implementation, disclosure, performance), only very modest improvements were noted. Between 2017 and 2020, improvements in company scores were mainly attributed to improvements in policy and strategy (32% to 40%) and implementation scores (32% to 37%). Performance saw the smallest increase in scores, from 14% to 15% over the same period. Disclosure also saw some improvement (14% to 20% between 2018 and 2020<sup>3</sup>).

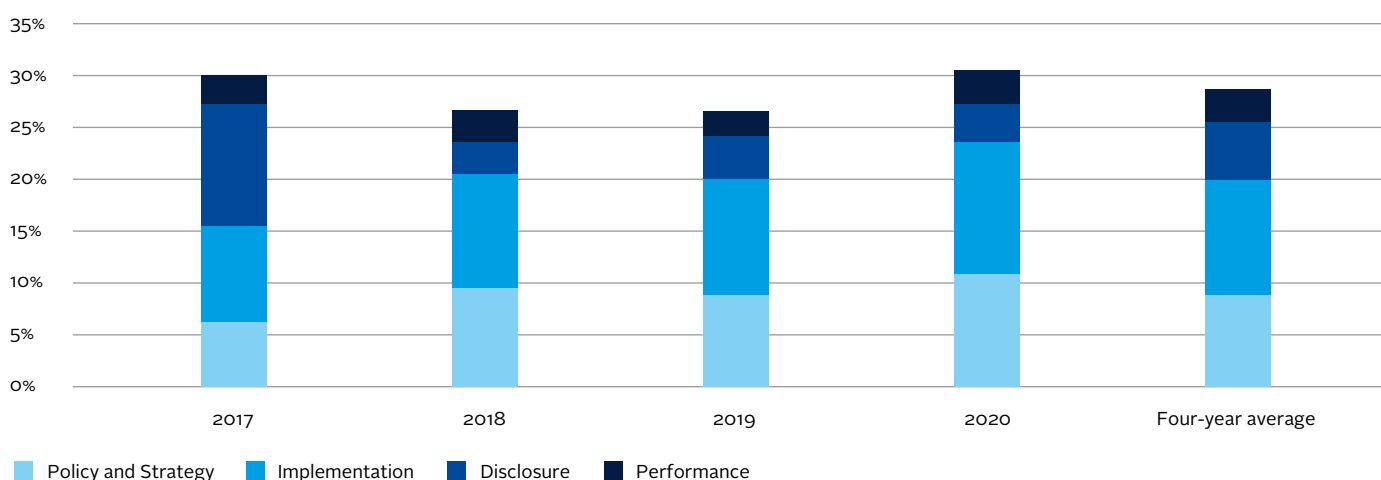
These overall findings align with the worsening situation we have witnessed, with primary rainforest destruction increasing by 12% from 2019 to 2020, and Brazil seeing the highest levels of primary forest loss of any country globally, with a total loss of 1.7 million hectares.<sup>4</sup>

While disappointing, engagement should not be seen as futile. Rather, deforestation is a complex, systemic issue which merits more sophisticated stewardship strategies that focus on real-world outcomes (see the Insights and Recommendations sections).

**Figure 1: Average company scores over the four categories between 2017 and 2020**



**Figure 2: Average company scores: How much did each category contribute to the total?**



<sup>3</sup> 2017 had an average disclosure score of 38%, however this was most likely due to the difference in scoring methodologies

<sup>4</sup> Global Forest Watch (2021), [Primary Rainforest Destruction Increased 12% from 2019 to 2020](#)



## FINDINGS BY ENGAGEMENT OBJECTIVE

### OBJECTIVE 1: POLICY AND STRATEGY

The initiative's first ask was for companies to adopt a **publicly-disclosed, commodity-specific deforestation policy with a quantifiable, time-bound commitment covering the entire supply chain and sourcing geographies**.

The following indicators were selected to assess this objective:

Indicators	Max Score	Scoring Explanations
<b>Presence of a commodity-specific policy outlining approach to achieving a deforestation-free supply chain</b>	1	1 = commodity-specific policy, or generic policy with soy, beef or leather as a priority commodity 0.5 = generic, non-commodity-specific, or other commodities prioritised 0 = no policy
<b>Policy outlines time-bound, quantifiable commitments to achieve a deforestation-free supply chain</b>	1	1 = commitment that is time-bound and quantifiable 0.5 = unquantifiable, generic commitment 0 = no commitment
<b>Deforestation policy requires companies to go beyond legal compliance</b>	1	1 = yes 0.5 = pilots / initiatives that go beyond legal compliance 0 = no
<b>Evidence of progress achieved against public commitments, reported with an established frequency</b>	1	1 = progress reported with established frequency 0.5 = progress reported ad hoc 0 = no progress reported

Table 1: Average Policy and Strategy indicator scores 2018-2020

Year	0	0.5	1
<b>Presence of a commodity-specific policy outlining approach to achieving a deforestation-free supply chain</b>			
2018	19%	33%	48%
2019	19%	38%	43%
2020	16%	27%	57%
<b>Policy outlines time-bound, quantifiable commitments to achieve a deforestation-free supply chain</b>			
2018	48%	4%	48%
2019	46%	19%	35%
2020	30%	32%	38%
<b>Deforestation policy requires companies to go beyond legal compliance</b>			
2018	93%	0%	7%
2019	81%	16%	3%
2020	76%	19%	5%
<b>Evidence of progress achieved against public commitments, reported with an established frequency</b>			
2018	70%	4%	26%
2019	62%	14%	24%
2020	57%	19%	24%

There has been a slight (+9%) increase in companies that have a commodity-specific deforestation policy, while the number of companies with no policy has decreased very slightly (-3%).

Overall, the percentage of companies without a time-bound deforestation policy or commitment decreased (from 48% to 30%).

Despite this, it seems new commitments were generally not quantifiable and time-bound, with those scoring 0.5 (i.e., not fully meeting requirements) increasing by 28% and those scoring full marks for time-bound, quantifiable policies decreasing from 48% to 38%.

**Table 2: Policy outlines time-bound, quantifiable commitments to achieve a deforestation-free supply chain – by sector**

Sector / Year	0	0.5	1
<b>Consumer Goods / Clothing &amp; Apparel</b>			
2018	30%	10%	60%
2019	33%	17%	50%
2020	25%	33%	42%
<b>Retail / Food Service</b>			
2018	50%	0%	50%
2019	53%	13%	33%
2020	33%	27%	40%
<b>Traders / Processors / Producers</b>			
2018	71%	0%	29%
2019	50%	30%	20%
2020	30%	40%	30%

The traders, processors and producers segment saw the largest percentage increase in companies that have a deforestation policy (those scoring 0 on this indicator decreased from 71% in 2018 to 30% in 2020). However, as of 2020, a high percentage of companies in this segment (40%) still have commitments that are either non-quantifiable or non-time-bound, reflecting the overall trend.

## OBJECTIVE 2: TRACEABILITY

The second company ask was **for a traceability commitment that is time-bound, quantifiable and covers direct and indirect suppliers, tracking the percentage of commodity procurement that is traceable to product origin.**

The following indicators were selected to assess this objective:

Indicators	Max Score	Scoring Explanations
<b>Evidence of traceability commitment that is time-bound, quantifiable, and covers the entire supply chain</b>	1	1 = yes 0 = no
<b>Percentage of commodity procurement that is traceable to origin</b>	100%	

**Table 3: Evidence of traceability commitment that is time-bound, quantifiable, and covers the entire supply chain – all companies**

Year	0	0.5	1
2018	85%	7%	7%
2019	73%	24%	3%
2020	68%	24%	8%

Uptake of traceability commitments that are time-bound, quantifiable and cover the entire supply chains is slow. While the percentage of companies that have some form of commitment increased by 17%, most companies (68% in 2020) still lack any form of traceability commitment. Only 8% of companies benchmarked scored full points on this indicator in 2020 (up 1% from 2018).

**Table 4: Evidence of traceability commitment that is time-bound, quantifiable, and covers the entire supply chain – by sector**

Sector / Year	0	0.5	1
<b>Consumer Goods / Clothing &amp; Apparel</b>			
2018	90%	0%	10%
2019	92%	0%	8%
2020	75%	8%	17%
<b>Retail / Food Service</b>			
2018	80%	10%	10%
2019	73%	27%	0%
2020	87%	13%	0%
<b>Traders / Processors / Producers</b>			
2018	86%	14%	0%
2019	50%	50%	0%
2020	30%	60%	10%

The traders, processors, producers segment saw the largest improvement in this area. In 2018, 86% of companies in this segment had no traceability commitments, while now the majority (70%) have a traceability commitment – but only 10% of these meet all requirements (time-bound, quantifiable, covering both direct and indirect suppliers).

The consumer goods segment saw some small improvements, with those scoring 0 decreasing by 15%, and 17% of companies in this sector achieving full scores. Retail / food services saw a backslide in commitments, with the latest benchmark showing zero companies have adequate commitments and 87% have no traceability commitments.

**Table 5: Percentage of commodity procurement that is traceable to origin**

2018	16%
2019	12%
2020	14%

The percentage of commodity procurement that is traceable to origin remains low and has experienced some backsliding.

### OBJECTIVE 3: SUPPLIER ASSURANCE

The third company ask was for a **publicly disclosed process for monitoring and verifying supplier compliance with their no-deforestation policy and a clear process for non-compliant suppliers.**

The following indicators were selected to assess this objective:

Indicators	Max Score	Scoring Explanations
Evidence of internal monitoring / verification of direct (tier 1) suppliers across all geographies	1	1 = all geographies 0.5 = restricted to Amazon biome 0 = no evidence
Evidence of internal monitoring / verification of indirect (tier 2 and beyond) suppliers across all geographies	1	1 = tier 2 and beyond 0.5 = tier 2 only partially verified 0 = nothing beyond tier 1
Company's verification of suppliers is conducted by a third party, and third-party verification reports are publicly available	1	1 = yes 0.5 = partially 0 = no
The percentage of commodity suppliers that comply with company's deforestation policy	100%	

**Table 6: Evidence of internal monitoring / verification of direct (tier 1) suppliers across geographies - all companies**

Year	0	0.5	1
2018	70%	7%	22%
2019	51%	24%	24%
2020	46%	27%	27%

In 2020, most companies (54%) monitored tier 1 suppliers in some form. The number of companies conducting partial monitoring of their supply chains has increased by 20%, while those conducting fully satisfactory monitoring activities have increased by 5% since 2018. The number of companies not monitoring tier 1 suppliers has decreased by 24% since 2018, from 70% to 46%.

**Table 7: Evidence of internal monitoring / verification of direct (tier 1) suppliers across geographies - by sector**

Sector / Year	0	0.5	1
<b>Consumer Goods / Clothing &amp; Apparel</b>			
2018	70%	0%	30%
2019	58%	17%	25%
2020	58%	17%	25%
<b>Retail / Food Service</b>			
2018	80%	0%	20%
2019	60%	33%	7%
2020	60%	33%	7%
<b>Traders / Processors / Producers</b>			
2018	57%	29%	14%
2019	30%	20%	50%
2020	10%	30%	60%

The traders, processors and producers segment saw the highest scores in this area. Those receiving full marks for this indicator amounted to just 14% in 2018, with an increase to 60% in 2020. Those scoring zero reduced from 57% to 10%. The retailers and consumer goods segments are lagging, with 7% and 25% having adequate practices respectively.

**Table 8: Evidence of internal monitoring / verification of indirect (tier 2 and beyond) suppliers across geographies - all companies**

Year	0	0.5	1
2018	89%	0%	11%
2019	84%	8%	8%
2020	65%	24%	11%

Evidence of internal monitoring and verification of tier 2 suppliers is lower than for tier 1. Full scores were only achieved by 11% of companies, which is the same proportion as in 2018. There was only a slight decrease in those scoring zero, from 89% in 2018 to 65% in 2020. Traders also seem to fare better in this area, although only 2% have practices that fully meet the requirements for this indicator.

Those taking up third-party verification are a small proportion of the whole group (16%).

Between 2018 and 2020 there was just a 1% increase in those who do this consistently for their entire supply chain, and a 15% increase in those who only use third-party verification for part of their supply chain.

Again, despite slight improvements in implementation practices, performance scores remained low. The percentage of suppliers complying with the company's deforestation policy remains low, with an average of 14% (a 2% increase compared to 2018).

## OBJECTIVE 4: DISCLOSURE

The fourth company ask was **public disclosure of the percentage of commodity sourced in line with their no-deforestation policy**.

The following indicators were selected to assess this objective:

Indicators	Max Score	Scoring Explanations
Company discloses the percentage of its soy, beef or leather produced or purchased that adheres to the company's deforestation policy	1	Partial scores assigned where disclosure does not apply to full supply chain
The percentage of commodity (soy, beef or leather) procurement that complies with the company's deforestation policy	100%	

**Table 9: Company discloses the percentage of its soy, beef or leather produced or purchased that adheres to the company's deforestation policy – all companies**

Year	0	0.5	1
2018	81%	0%	19%
2019	81%	8%	11%
2020	70%	11%	19%

There were no significant improvements regarding the proportion of companies disclosing the percentage of deforestation-risk commodities produced or purchased that adhered to their deforestation policy. There was a slight decrease in companies that scored zero (meaning those who did not disclose at all).

**Table 10: Average percentage of commodity procurement that complies with its deforestation policy – by sector**

Sector / Year	Average score
<b>Consumer Goods / Clothing &amp; Apparel</b>	
<b>2018</b>	16%
<b>2019</b>	16%
<b>2020</b>	29%
<b>Retail / Food Service</b>	
<b>2018</b>	13%
<b>2019</b>	5%
<b>2020</b>	9%
<b>Traders / Processors/ Producers</b>	
<b>2018</b>	18%
<b>2019</b>	4%
<b>2020</b>	31%

Unsurprisingly, the average percentage of commodities in compliance with deforestation policies also did not increase by much. It was 21% in 2020, up 6% from 2018. Traders had the highest score in 2020 at 31%, while retail fell back from 13% to 9% between 2018 and 2020.

## INSIGHTS

**Companies made some progress on commitments, policies and implementation. However, performance is lagging.**

Since the IISF was launched in 2017, companies have made some progress in updating and improving their existing deforestation commitments. Some have made new commitments to full traceability and to ending deforestation within their supply chain.

Despite this, the alarming increase in deforestation rates globally over the course of the engagement, particularly in Brazil, highlight that there is a mismatch between companies' policies, their implementation, and actual reduction of deforestation. This conflict reflects the complexities of deforestation, including its multiple drivers and the multi-stakeholder alignment and coordination required to tackle it, as well as the need for more strategic and forceful stewardship.

**There are significant challenges (and therefore potential levers) for investors tackling deforestation, including:**

- **Political environment.** While Brazil has historically had a strong policy framework for safeguarding its forests, including specific institutions monitoring data and developments in this area, enforcement of conservation policies remains weak,<sup>5</sup> and more recently it was announced that deforestation will no longer be tracked in the Cerrado. Political support would facilitate better traceability solutions, which are a key lever to better understanding deforestation.<sup>6</sup> Brazil's volatile political climate during IISF activities has been a key challenge for identifying and encouraging deforestation solutions.
- **Traceability and data.** Company disclosures on sourcing forest-risk commodities are limited. While this is a challenge for investors, methodologies are available for estimating and qualifying deforestation risk.<sup>7</sup> Collaborative projects are emerging to help make the best use of available tools and datasets. One example is the [Aligned Accountability project](#), a partnership between Global Canopy, the Zoological Society of London, Trase and the Accountability Framework Initiative, which will collect the best available open data on company performance on deforestation risks in commodity supply chains and create standardised common metrics.

<sup>5</sup> WWF (2015), [Brazil's New Forest Code: A guide for decision-makers in supply chains and governments](#)

<sup>6</sup> Brazilian Coalition on climate, forests and agriculture (2020), [Beef Chain Traceability in Brazil - Challenges and Opportunities](#)

<sup>7</sup> KLP, Storebrand and Rainforest Foundation Norway (2020), [Deforestation tools assessment and gap analysis: How investors can manage deforestation risk](#)

- **Supply chain dynamics and complexity.** Cattle and soy supply chains are complex (i.e., spanning several continents, multiple segments and stakeholders, and generally not vertically integrated) and have been historically difficult for investors to engage with. Supply chain complexity means it is harder to prevent unsustainable goods being sold. During the engagement, we found that investors would have benefitted from more knowledge of the investee companies that were engaged, including on the geographies where they were based. Where supply chain segments were particularly fragmented, it was hard to engage all relevant companies, especially where they were smaller and / or not publicly listed. Where companies were listed and the supply chain segment was concentrated, at times it was hard for investors to have sufficient influence on companies, due to only holding a small proportion of shares.

#### Deforestation is a systemic issue – and systems approaches to stewardship are needed to tackle it.

Deforestation has the potential to disrupt the ecological cycles on which society and companies depend. Disruption to ecosystem services provided by the Amazon rainforest, such as the water cycle, climate regulation and protection from disease, has and will continue to have tremendous impacts across multiple companies, supply chains, sectors, markets and economies. As such, deforestation affects investor portfolios beyond narrow definitions of direct exposure. But investors should not be deterred from engaging on deforestation. On the contrary, because of the complexity of the issue, it will be important to incorporate learning from this engagement and other experiences to ensure that future stewardship efforts are more effective and impactful.

Many investors understand this and some are already putting this systemic approach to stewardship into practice with regards to deforestation. Promising developments included:

- **Supporting the Cerrado Manifesto.** Many investors signed the [Cerrado Manifesto Statement of Support](#)<sup>8</sup> and some became involved in the steering committee. This group has been pushing for a biome-wide solution to address deforestation, engaging with multiple industry bodies and other stakeholders.
- **Initiating policy dialogue.** Investors have started to engage with governments through the [Investor Policy Dialogue on Deforestation](#) (IPDD), urging them to demonstrate clear commitment to eliminating deforestation.
- **Using escalation tools beyond dialogue.** Members of the IISF successfully filed a shareholder proposal for Bunge, a food production company, to strengthen its no-deforestation policies. After being endorsed by the company's board of directors, it was favourably voted upon by 98% of shareholders.<sup>9</sup> A similar proposal at ADM achieved an improved commitment from the company, secured in exchange for a withdrawal of the proposal.<sup>10</sup>

8 For a full list, see [this link](#)

9 Chain Reaction Research (2021), [The Chain: Recent Shareholder Votes on Deforestation Reflect Greater Investor Pressure to Reduce Forest Loss](#)

10 Green Century Funds (2021), [ADM\\* Strengthens No-Deforestation Policy, Following Green Century Shareholder Proposal](#)

# RECOMMENDATIONS

The following are recommendations for continued investor action on deforestation, based on learnings from the IISF. These are not prescriptive, but rather suggestions for how investors can build upon the work of IISF members:

**1. Continue pushing for commitments to halt deforestation, with full traceability as a key lever to change company practices.**

Encouraging full traceability of commodities to origin will be an important lever in halting deforestation, due to the importance of better understanding where deforestation is happening and which actors are involved. Traceability is also important from a human rights perspective (e.g., identifying labour rights abuses and land grabbing<sup>11</sup>). New or upcoming due diligence regulations in the UK, EU and the US will also likely intensify the need for better traceability data and tools. Stakeholders in industry, academia and affected communities are initiating projects to improve investors' ability to access this data.

**2. Prepare to escalate when policies do not translate into action and outcomes on the ground.**

Results for this engagement show that commitments and policies are not enough to make a difference to overall deforestation rates. If investors want to tackle deforestation, it is crucial to focus on influencing positive, real-world outcomes. Should investors not see results, then they should be prepared to use the full range of stewardship tools available to them beyond company dialogue, including filing and [voting on shareholder resolutions](#), applying public pressure tactics and reviewing the role of board members of the companies in question.

**3. Multi-stakeholder action is key to tackling deforestation. Collaboration across sectors and supply chains should be a key feature of future stewardship initiatives.**

Investors can engage with a broader range of stakeholders through company dialogues with key actors (e.g., banks), by joining policy engagement efforts such as the IPDD, supporting multi-stakeholder initiatives such as the Statement of Support for the Cerrado Manifesto, and collaborating across different supply chains to learn from positive experiences with tools such as certification and / or biome-wide private sector agreements.

**4. Integrate interconnected ESG issues into future stewardship activity on deforestation.**

Deforestation is a systemic issue, and therefore some key levers for action lie beyond the 'E' in ESG. Paying living wages can reduce smallholder deforestation,<sup>12</sup> for example, and indigenous land rights are a key driver of forest conservation in Brazil.<sup>13</sup> It is important to also consider the drivers behind deforestation, such as unsustainable consumption of forest-risk commodities.<sup>14</sup> Action in consuming markets should be a feature of any future engagement on deforestation. As any new stewardship strategy is developed, it will be important to consider unintended impacts on, or synergies with, areas for action such as biodiversity, climate, circular economy and other ESG issues.

Individual actions from investors and companies will only have a limited impact. Collaboration is essential to increase supply chain transparency and tackle deforestation.

<sup>11</sup> PRI (2020), [From farm to table: ensuring fair labour practices in agricultural supply chains](#).

<sup>12</sup> See the World Conservation Society's ['Forest First' Approach](#)

<sup>13</sup> Baragwanath and Bayi (2020), [Collective property rights reduce deforestation in the Brazilian Amazon](#)

<sup>14</sup> CarbonBrief (2021), [Scientists calculate trade-related 'deforestation footprint' of rich countries](#)



# NEXT STEPS

The PRI continues to work on the issue of sustainable commodities and deforestation. For example, we will be producing a document on the results of our [sustainable palm oil collaborative engagement](#). Find out more on our [Sustainable Land Use](#) page. Collaborative engagement on deforestation will be relaunched shortly. In addition, investors should also look to be involved in other deforestation initiatives, in particular the IPDD.

# APPENDIX – BENCHMARK INDICATORS

Indicators	Explanation and definitions	Scoring
<b>POLICY AND STRATEGY</b>		
<b>Policy Commitment. Presence of a commodity-specific policy outlining approach to achieving a deforestation-free supply chain</b>		1 = commodity-specific policy, or generic policy with soy, beef or leather as a priority commodity 0.5 = generic, non-commodity-specific, or other commodities prioritised 0 = no policy
<b>Policy Commitment. Policy outlines time-bound, quantifiable commitments to achieve a deforestation-free supply chain</b>		1 = commitments that are time-bound and quantifiable 0.5 = unquantifiable, generic commitments 0 = no commitments
<b>Policy Commitment. Company requires suppliers to address deforestation beyond legal compliance</b>	A major issue in the Cerrado is that a lot of deforestation is legally allowed. Several trading companies specifically do not allow illegal deforestation but continue to source from producers that have deforested legally	1 = yes 0 = no
<b>Policy Commitment. Presence of a policy prohibiting human (including land and labour) rights violations</b>	Human rights assessed in line with the UN Guiding Principles, with explicit mention of impact to indigenous peoples through Free Prior Informed Consent (FPIC) <sup>15</sup> or other suitable framework	1 = presence of a policy that explicitly mentions relevant standards and principles (UNGP, FPIC) 0.5 = generic policy 0 = no policy
<b>Policy Commitment. Deforestation policy prohibits all conversion of native vegetation into cropland</b>		1 = yes 0 = no
<b>Policy Commitment. Company incentivises responsible soy or cattle expansion into non-forested areas</b>	Presence of a policy outlining the use of degraded landscapes where business expansion is necessary	1 = yes 0 = no
<b>Policy Commitment. Deforestation policy applies to all business operations and assets, all third-party suppliers and across all geographies</b>	This indicator assesses whether a company adequately addresses the conversion of native Cerrado vegetation and does not limit its policies to Amazon deforestation through a narrow definition of 'forests'	1 = all business units and assets, all third-party suppliers, all geographies 0.5 = unspecified, or limited in scope 0 = no commitments
<b>GHG Emissions. Company has a time-bound strategy for reducing its carbon footprint, including scope III emissions</b>	Establish link between greenhouse gas (GHG) and deforestation	1 = yes 0 = no
<b>Risk Assessment. The company's board has a committee that is formally focused on sustainability issues</b>		1 = yes 0 = no
<b>TOTAL (max 9)</b>		

<sup>15</sup> [Free, Prior and Informed Consent](#) (FPIC) is a specific right that pertains to indigenous peoples and is recognised in the United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP). It allows them to give or withhold consent to a project that may affect them or their territories. Once they have given their consent, they can withdraw it at any stage

Indicators	Explanation and definitions	Scoring
<b>IMPLEMENTATION</b>		
<b>Risk Assessment. Evidence of participation in multi-stakeholder collaboration forums focused on eliminating deforestation from supply chains</b>	These include roundtables, working groups, certifications, moratoria, etc	1 = participation in / support for a relevant multi-stakeholder initiative 0 = no participation
<b>Traceability. Evidence of traceability intent</b>	Traceability is defined as a product-level characteristic, different from company-level supplier transparency. Traceability intent can be implemented at farm, mill or landscape level	1 = yes 0 = no
<b>Supplier Assurance. Evidence of internal monitoring / verification of direct (tier 1) suppliers across all geographies</b>	Without verification, even the most elaborate deforestation policy can still leave a company exposed to significant risks. 'Across all geographies' is defined as 'not restricted to the Amazon biome'	1 = all geographies 0.5 = restricted to Amazon biome 0 = no evidence
<b>Supplier Assurance. Evidence of human rights policy implementation</b>		1 = evidence of actions taken towards a supplier over human rights issues 0 = no evidence
<b>Traceability. Evidence of traceability commitment that is time-bound, quantifiable, and covers the entire supply chain</b>		1 = yes 0 = no
<b>Supplier Assurance. Evidence of internal monitoring / verification of indirect (tier 2 and beyond) suppliers across all geographies</b>	Verifying the compliance of indirect suppliers is crucial, as companies can still be held responsible for deforestation carried out upstream of their direct suppliers. 'Across all geographies' is defined as 'not restricted to the Amazon biome'	1 = tier 2 and beyond 0 = nothing beyond tier 1
<b>Supplier Assurance. Company engages with suppliers to help them meet company deforestation standards</b>	Often producers need financial and / or technical support on the ground to execute buyer standards	1 = yes 0 = no
<b>Supplier Assurance. Company discloses a protocol for supplier non-compliance, specifying criteria for contract suspension and time-bound action plans</b>	Monitoring a complicated supply chain requires the ability to gather accurate information from sources on the ground. A formalised grievance process that is trusted by suppliers and respected by the company can help ensure that a company is aware of concerns as they arise	1 = yes, including specific and time-bound action plans 0.5 = yes, but without further specifications 0 = no
<b>Risk Assessment. Evidence of the use of metrics to assess crop-driven deforestation risks</b>	Systematic way to make an inventory on where there are risks of deforestation	1 = yes 0 = no
<b>GHG Emissions. Evidence of quantification and validation of GHG emissions (scope 3) using internationally recognised methodology</b>	Establish link between greenhouse gas (GHG) and deforestation	1 = yes 0 = no
<b>Supplier Assurance. Company's verification of suppliers is conducted by a third party, and third-party verification reports are publicly available</b>		1 = yes 0.5 = partially 0 = no
<b>TOTAL (max 11)</b>		

Indicators	Explanation and definitions	Scoring
<b>DISCLOSURE</b>		
<b>Traceability. Disclosure of percentage of supply chain that is traceable to product origin</b>		1 = yes 0 = no
<b>Supplier assurance. Company discloses the percentage of soy, beef or leather produced or purchased that adheres to the company's deforestation policy</b>	This metric allows for a greater understanding of how a company is progressing toward its goals	1 = yes 0 = no
<b>Supplier Assurance. Company discloses the suppliers who do not comply with its deforestation policy</b>		1 = yes 0 = no
<b>Risk Assessment. Disclosure of materiality and / or dependency on crop products as inputs or outputs</b>	How important is soy, beef or leather in relation to its revenues?	1 = yes 0.5 = partially 0 = no
<b>Risk Assessment. Disclosure of any processes to identify, assess, and manage deforestation risks across the supply chain</b>		1 = yes 0 = no
<b>Supplier Assurance. Disclosure of all grievances filed and actions taken</b>		1 = yes 0 = no
<b>Supplier Assurance. Disclosure of the names and locations of its suppliers</b>		1 = yes 0 = no
<b>TOTAL (max 7)</b>		
<b>PERFORMANCE</b>		
<b>Commitments. Evidence of progress achieved against public commitments, reported with an established frequency</b>	Holds companies accountable to their commitments. Looks for evidence of progress achieved. Publication of the report is not enough	1 = progress reported with established frequency 0.5 = progress reported ad hoc 0 = no progress reported
<b>Commitments. Year that time-bound plan completes</b>	Holds companies accountable to their commitments	1 = prior to 2020 0.5 = 2020 0 = after 2020 or N/A
<b>Traceability. Percentage of soy, beef or leather procurement that is traceable to origin</b>		Score calculated as percentage / 100
<b>Traceability. Percentage of direct and indirect soy, beef or leather suppliers traceable to origin</b>		Score calculated as percentage / 100
<b>Compliance / Supplier Assurance. The percentage of soy, beef or leather procurement that complies with its deforestation policy</b>		Score calculated as percentage / 100
<b>Compliance / Supplier Assurance. The percentage of soy, beef or leather suppliers that complies with its deforestation policy</b>		Score calculated as percentage / 100
<b>TOTAL (max 6)</b>		

## CREDITS

### AUTHOR:

Isabella Coin, PRI

### EDITOR:

Rachael Revesz, PRI

### DESIGN:

Will Stewart, PRI

## The Principles for Responsible Investment (PRI)

The PRI works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

More information: [www.unpri.org](http://www.unpri.org)



## The PRI is an investor initiative in partnership with UNEP Finance Initiative and the UN Global Compact.

### United Nations Environment Programme Finance Initiative (UNEP FI)

UNEP FI is a unique partnership between the United Nations Environment Programme (UNEP) and the global financial sector. UNEP FI works closely with over 200 financial institutions that are signatories to the UNEP FI Statement on Sustainable Development, and a range of partner organisations, to develop and promote linkages between sustainability and financial performance. Through peer-to-peer networks, research and training, UNEP FI carries out its mission to identify, promote, and realise the adoption of best environmental and sustainability practice at all levels of financial institution operations.

More information: [www.unepfi.org](http://www.unepfi.org)



### United Nations Global Compact

The United Nations Global Compact is a call to companies everywhere to align their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption, and to take action in support of UN goals and issues embodied in the Sustainable Development Goals. The UN Global Compact is a leadership platform for the development, implementation and disclosure of responsible corporate practices. Launched in 2000, it is the largest corporate sustainability initiative in the world, with more than 8,800 companies and 4,000 non-business signatories based in over 160 countries, and more than 80 Local Networks.

More information: [www.unglobalcompact.org](http://www.unglobalcompact.org)

