Recommendations for investors on deforestation and conversion risks related to cattle ranching and beef supply chains in Latin America

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Recommendations for investors on deforestation and conversion risks related to cattle ranching and beef supply chains in Latin America

This paper is a summary of the insights that were shared during three webinars (2020) for Dutch investors around deforestation and conversion risks in the production of beef in Latin America and its supply chains. This paper is a collaboration between IUCN NL, VBDO and WWF NL and is funded by the Shared Resources, Joint Solutions programme of the Ministry of Foreign Affairs.

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A summary of the webinars and a link to the speakers' presentations can be found here.

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1. Cattle ranching and deforestation: high risks, limited attention

In July 2020, for the first time, a central bank alarmed the financial markets on the risks of biodiversity loss and the potential impact on the real economy. The Dutch Central Bank (DNB), in collaboration with the Netherlands Environmental Assessment Agency (PBL), launched their first exploration on this topic. Due to a decline in biodiversity and the availability of ecosystem services, companies are increasingly exposed to transitional and physical nature related risks. The research group estimated that Dutch financial institutions have provided worldwide 510 billion (EUR) in finance to companies that are highly or very highly dependent on one or more ecosystem services. Also, Dutch financial institutions have an exposure of 97 billion (EUR) to businesses with a heightened reputational risk resulting from products or activities related to deforestation1. Many of these risks are concentrated around the equator in biodiversity hotspots and relate to the production of commodities such as soy, palm oil and cattle ranching.

Investor risks in Latin American cattle ranching

Cattle ranching is one of the main causes of rapid land conversion worldwide, in particular in Latin America. Financial institutions are exposed to deforestation in Latin America via their loans and investments in companies that produce, trade or use products linked to deforestation for cattle ranching, such as beef and leather. Through lending or ownership, investors risk major financial losses when they are linked directly or indirectly to forest destruction. Multiple transition risks, such as new regulation limiting agricultural production on newly deforested lands, can jeopardise future returns. Reputation risks can also influence the brand value and a loss in revenue, impacting share value among companies in the beef supply chain. Perhaps more impactful are physical risks, e.g. the effect of climate change and the increased pressure on ecosystems, potentially rendering newly deforested lands unusable in the nearby future.

Beef producing companies are low-performers on deforestation risks

The Coller FAIRR Protein Producer Index is an assessment of the 60 largest animal protein related companies on 10 risk factors (including deforestation and biodiversity) and 31 KPIs.[2] One of the most important findings is that most beef producing companies have

no or very limited discussions about deforestation risks in their bovine supply chains. In 2020, FAIRR assessed 12 beef producing companies worldwide on how they are performing on deforestation risks. The analysis showed that:

- 7 out of 12 beef producing companies have no or very limited discussion of deforestation risks in their cattle supply chains.
- 6 out of 12 beef producing companies are not transparent on how they are engaging suppliers on deforestation risks.
- Only 3 companies had set a time-bound zero deforestation target for cattle in some sourcing regions.
- Zero companies have set a target that applies to all cattle products.

Most investors lack strong policies on deforestation related to cattle ranching

In July 2020, Global Canopy[3] made an assessment of the deforestation policies of the 235 investors that signed the UN PRI /Ceres Investor Statement on Deforestation and Forest Fires in the Amazon. Only 33 of the 235 investors who signed the statement last year have published clear deforestation policies which they apply to their portfolios. And only 21 of these investors apply these policies to all of the forest-risk commodities that they finance. The other 202 investors are yet to formalise their position into publicly-disclosed deforestation policies. Twelve of this large group of financial institutions had policies for palm oil and timber products but not for soy or cattle. In addition, Global Canopy's Forest 500 assessment identifies the 150 financial institutions worldwide (covering both lenders and investors) that provide the most finance to the top companies in forest-risk supply chains. In the full Forest 500 assessment for 2019, only 19% of these financial institutions had publicly-disclosed deforestation policies that covered cattle supply chains[4].

Purpose of this paper

Within the Shared Resources Joint Solutions (SRJS) program IUCN NL, WWF NL, and VBDO have started a joint analysis and investigation into the impact of investments and current sustainability policies by Dutch investors on deforestation and land conversion.[5] Special attention was given to cattle ranching in Latin America where initiating a dialogue with those actors to increase their awareness was part of this joint work. Initial research among Dutch investors and follow-up interviews indicated that current sustainability policies differ in scope but are often limited. Additionally, the research suggested that there is a need for better understanding of the beef supply chains and the impact on deforestation and land conversion in Latin America through additional knowledge and best practice sharing. With this paper, we aim to disseminate our findings and promote the development and implementation of cohesive and stronger policies in the Dutch financial sector.

This paper summarizes the insights that were shared during the three webinars on this topic organized in May and June 2020. We will first focus on the impact of cattle ranching in Latin America and give an overview of our findings of current policies of Dutch investors. Secondly, we will share some highlights of actions focusing on eliminating deforestation from the supply chain. Thirdly, we will share examples of how investors are starting to identify risks in their portfolios and what tools they use. And finally, we will conclude with specific recommendations for investors.

2. The impacts of cattle ranching in Latin America

Cattle ranching as major driver of deforestation and conversion

Cattle ranching for beef is the number-one driver of tropical deforestation in Latin America and worldwide.[6] Estimates are that cattle ranching is responsible for between 65% and 70% of the total deforestation taking place in Latin America and nearly 80% of all deforestation in Brazil. In July 2020, Brazil's national space research institute reported that deforestation in the Brazilian Amazon continued to climb during last fifteen months, a level of destruction not seen since the mid-2000s.[7]

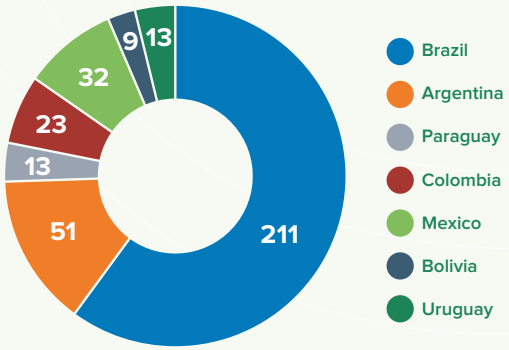
The livestock sector accounts for 46% of the agricultural gross domestic product of Latin America, and has grown at an annual rate of 3.7%.[8] There were close to 340 million heads of cattle in Latin America in 2015, with Brazil being the largest exporter in the world.[9]

Since average land use for cattle ranching in this region is around 1 ha per head of cattle it can be easily imagined that this requires vast areas of grasslands.[10] Cattle are raised primarily for beef and dairy products, but the sector also supplies products, such as fats, leather, and gelatin, to other industries.

Lack of transparency and traceability

The cattle supply chain is still characterized by a lack of transparency. The main bottleneck is that breeding and fattening of a cow often does not happen at the same farm. Since animal transport between farms is regularly not registered there is no complete information publicly available of the entire process. Fragmentation of the industry makes it hard for companies to track and trace cattle as the animals move through the supply chain, and consequently act adequately on deforestation risk in supply chains. Since animals are rarely traced at the individual level 'cattle laundering' is easy. Cattle laundering is a practice in which animals from a cattle ranch that is blacklisted by buyers/traders due to environmental or social transgressions are transferred to a ranch with a clean record to bypass a ban on sales.

Figure 1 | **Heads of cattle per country (in millions)**



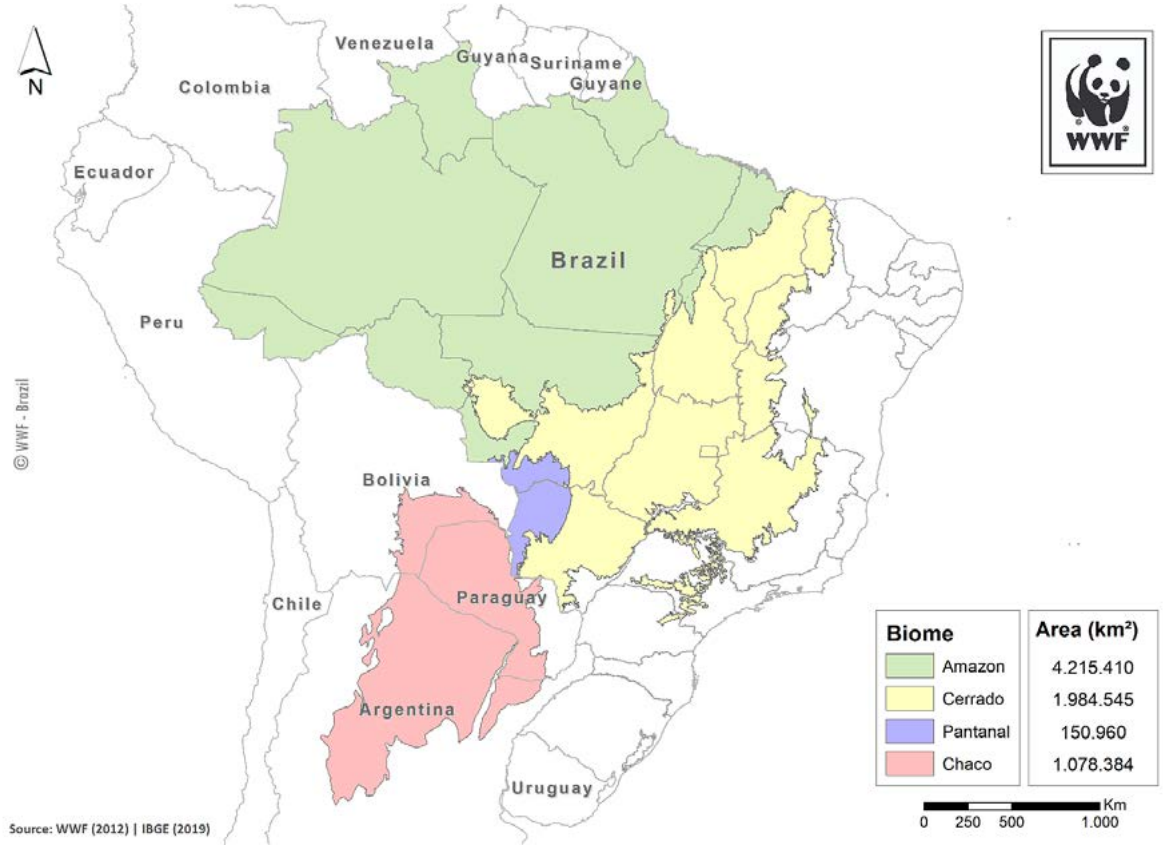
Argentina, Paraguay and Bolivia: impacts on the Gran Chaco

The Gran Chaco ecoregion is formed by several habitats, such as savanna's, thorn forests and natural grasslands and is located in the centre of Latin America. It contains the second largest forest after the Amazon covering 1,066,000 km² in Paraguay, Argentina, Bolivia and Brazil. The Gran Chaco is a habitat for many species rarely seen in other ecoregions, many of which are severely impacted by the reduction of habitats and alteration of water availability. It is also the only place in Latin America outside the Amazon where uncontacted indigenous people, known as the Ayoreo-Totbiegosode, still live.

The average deforestation in the Gran Chaco is 428,000 hectares per year, roughly the size of the Dutch province of North Holland. The majority happening in Paraguay with an average of 230,000 hectares per year, followed by Argentina with an average of 145,000 hectares per year and the remainder in Bolivia. Both 2019 and 2020 have also seen a concerning increase in forest fires, significantly speeding up the loss of native vegetation.

Deforestation is mainly caused by expansion for cattle ranching and soybean production, with a focus on the first. Often in Latin America soy expansion tends to follow clearance for pasture land. Thereby pastures are converted into soy plantations and cattle ranchers are pushed further into the forest causing more deforestation or conversion. In more recent years deforestation rates have slowed down, partly due to some improvement of legislation in Bolivia, but also due to the fact

Figure 2 | **Selection of important biomes in Latin America**



that less land is available outside protected areas. However, according to recent modeling scenarios, if business continues as usual, by 2028 there will be an additional loss of almost 4 million hectares of forest in Argentina and over 7 million hectares in Paraguay.[11] Official government deforestation data for the Gran Chaco are only published with years delay. Deforestation in the Chaco can be independently monitored through the Mapbiomas Chaco initiative. This initiative involves a collaborative network of specialists from Argentina, Brazil and Paraguay and its objective is to generate annual maps of land cover and use for the Chaco region and make those available to the general public (https://chaco.mapbiomas.org/).

While the indigenous communities in Bolivia face less land conflicts due to the role played by government protected areas, native people in the Paraguayan Chaco do not have these advantages. In this remote area there is little presence of the government and indigenous and local communities are often not consulted regarding development plans. In addition, there are numerous problems of overlapping land ownership and an incomplete and outdated land registry. Protected areas also lack a solid legal basis that guarantees their protection and personnel dedicated to their effective management, leading to uncontrolled expansion for cattle ranching even within national parks.

Brazil: impacts on the Amazon and Cerrado

The Amazon and the Cerrado ecosystems are also under threat by the expansion of pasture land for cattle ranching.

The Amazon rainforest is the largest and most biodiverse tropical rainforest in the world, with an estimated 390 billion individual trees divided into 16,000 species. Iconic animal species are jaguars, macaws and the Amazon river dolphin. The majority of the forest (60%) is contained within Brazil. More than 30 million people of 350 different ethnic groups live in the Amazon. Indigenous peoples make up 9% of the total population with 60 of the groups remaining largely isolated.[12] The Amazon biome has already lost 20% of its original vegetation and deforestation is back on the rise.

The Cerrado savanna, which lies mostly in Brazil, has never received the same attention as the Amazon, yet it is the world's most biodiverse savanna. It is home to 5% of the planet's animals and plants. Giant anteaters and armadillos are among its vulnerable animal species. The Cerrado is also extremely important as a source of water. Of 12 major hydrological regions in Brazil, six begin in the Cerrado, including the Pantanal, the world's largest wetland. Nine out of 10 Brazilians use electricity generated by water originating in the Cerrado savanna. Since the 1950s, however, agriculture – particularly the rapid expansion of soy and beef production – has driven the loss of about half of its native vegetation.[13]

While deforestation in Brazil decreased with 80% since 2004, it is now unfortunately back on the rise for 2015 (24%), 2016 (29%) and 2018 (30%). Deforestation in Brazil until Oct 29th of 2020 was 5% lower than deforestation in the same period in 2019. However it was still 99% higher than the average of the last 10 years and 50% higher than the average of the last 3 years.[14]

The cattle farming sector in Brazil is a significant user of land covering 126 million ha. Most of the beef is used for the domestic market (76%), but about 24% of the production is responsible for significant exports (2,5 million CWE[15]) to over 100 countries. The sector is complex and characterized by a lack of transparency in which information regarding indirect suppliers is not publicly available, and there is little effective pressure from the market to reduce deforestation related risks. In 2009, major meat packing companies JBS, Minerva, Marfrig and Bertin, imposed a moratorium on buying cattle directly linked to recent deforestation in the Brazilian Amazon and implemented monitoring systems to ensure that beef and leather in their supply chains is not being produced as a result of new forest clearing. The companies also agreed to ban buying of cattle from ranches using slave labor or illegally occupying protected areas and indigenous reserves.[16] While this means that companies are monitoring direct suppliers from the Amazon, monitoring indirect suppliers is considered an additional cost. Also, geospatial monitoring of direct suppliers from the Cerrado is absent, despite deforestation data being available. This situation means that deforestation and conversion from direct suppliers in the Cerrado and from indirect suppliers overall remain largely unmonitored and 'cattle laundering', leakage and triangulation take place regularly.

3. How are Dutch investors responding to cattle related deforestation risks?

In 2020, the three partners have made a policy overview of 17 large Dutch financial institutions (banks, insurance companies, pension funds and asset managers) and their policy on the production of beef and in the supply chain. The selection of institutions was based on potential exposure and sustainability ambitions. This research was done using publicly available information only. We looked at whether the institutions link the production of beef and soy to deforestation and conversion and whether the link is addressed in their policy towards clients or responsible investment. VBDO also analysed if these institutions have committed to initiatives or programmes related to sustainable beef, soy and deforestation in general. Investment policies of 5 Dutch banks and 12 Dutch investors on sustainable beef were compared. The main findings are as follows:

- All of the banks and insurance companies have policies on cattle farming, but the policies mainly address animal welfare and in most cases are not linked to the topic of deforestation or conversion. Only three of those financial institutions do make a direct link between the production of beef and deforestation. This direct link could indicate that these three organisations are more aware of environmental impacts or because they are more exposed and have more assets under management in sectors that link to (international) cattle farming. However, policies are still limited and 'soft' and in most cases do not distinguish between direct (agricultural production) and indirect (food industry) impact.
- Most banks and insurance companies have policies on deforestation. However, these policies in most cases focus on other sectors such as the production of palm oil, soy, timber and mining and do not address cattle farming. Only one bank has explicitly linked deforestation in Brazil to cattle ranching in their policy.
- Almost none of the asset managers and asset owners (pension funds) have specific policies on cattle farming and deforestation. Only one of the asset managers has a zero-deforestation ambition. Noticeable is that the asset managers do have quite some best practices in advocating for minimising the impacts of deforestation (e.g. collaborative engagement or manifesto's), despite the fact that they do not have policies on the themes discussed here.

In most cases financial institutions do not have a specific policy regarding the production of beef or on deforestation, which makes it hard to find out if e.g. communities and human rights are taken into account in the value chain of animal protein. The results of our analysis among Dutch investors, although more detailed and focused on beef production, shows broadly similar results to the international Forest 500 ranking (see Chapter 1) with only limited investors having actual deforestation policies.[17]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4. Supply chain actions towards deforestation- and conversion-free portfolios

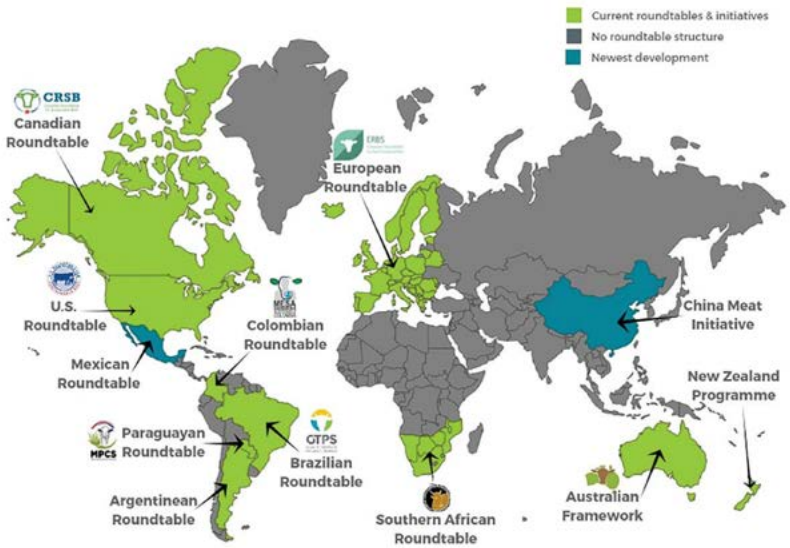
There are several supply chain initiatives ongoing in Latin-America that focus specifically on the prevention of deforestation and land conversion in beef supply chains. This chapter presents the three initiatives that were shared during the webinars series and does not intend to present a complete inventory of initiatives taking place.

Global Roundtable for Sustainable Beef

The Joint Working Group on Land-Use Change of the Global Roundtable for Sustainable Beef (GRSB) aims at solutions that protect forests and native vegetation and promote more sustainable livestock value chains (www.grsbeef.org). The GRSB is a global, multi-stakeholder initiative developed to advance continuous improvement in sustainability of the global beef value chain through leadership, science and multi-stakeholder engagement and collaboration. The GRSB defines 5 global principles and criteria (Natural Resources, People and the Community, Animal Health and Welfare, Food, Efficiency and Innovation) but is not a certification mechanism. The main reason for this is that many different production systems for beef exist which makes it difficult to develop a universal certification protocol or set of production practices that can be applied to all of them. Local interpretation and detailing of the GRSB principles and criteria take place in national roundtables, amongst which include Mexico, Brazil, Paraguay, Colombia and Argentina. Only the Canadian roundtable has translated the principles and criteria in a national certification system.

An important GRSB criterion is: 'Native forests are protected from deforestation. Grasslands, other native ecosystems, and high conservation value areas are protected from land conversion and degradation.' The level of detail regarding deforestation and conversion criteria differs per local roundtable. It is also good to realize that not all local roundtables have included zero-deforestation and conversion in their local interpretations. Some roundtables do not go beyond legal compliance, or recognize several different approaches to deforestation, in which zero illegal deforestation is defined as a basic level of sustainability and zero-deforestation and conversion as the highest. The Joint Working Group on Land-Use Change of the GRSB is in an ongoing discussion on how to align these different national approaches to the GRSB criterion. The outcome of this will be important for the future credibility of the GRSB as a global standard on this topic.

Figure 3 | **Overview of regional roundtables and initiatives**



Collaboration for Forests and Agriculture initiative - WWF Brazil

The 'Collaboration for Forests and Agriculture' (CFA) initiative is supported by the Gordon & Betty Moore Foundation, and led by The Nature Conservancy (TNC), National Wildlife Federation (NWF) and the World Wildlife Fund (WWF).[18] [19] It aims to eliminate deforestation and habitat loss from the world's largest beef and soy markets. One of the activities is to support companies in the soy and cattle supply chains to align, develop, and implement deforestation- and conversion-free commitments by improving decision-support tools, enhancing information transparency and unlocking financial incentives. The CFA initiative is active in Brazil, Paraguay and Argentina, and the ecoregions Amazon, Cerrado and Chaco, where deforestation and conversion of habitats linked to cattle ranching and soy production is high.

WWF Brazil, as one of the implementing partners, acknowledges that some companies have already started tracing their supply of beef, by identifying their direct (tier 1) suppliers, and they report this to their investors. However, this is not sufficient. Deforestation and conversion remain undetected, as there is no visibility, monitoring or transparency of indirect suppliers (tier 2 or tier 3), potentially leading to 'cattle laundering'. Therefore WWF-Brazil has developed a tool called the Deforestation and Conversion Free (DCF) Operational Guidance for companies under the CFA initiative. The DCF Operational Guidance is the Latin American regional roadmap for the Accountability Framework Initiative (AFI) and fully aligned with AFI (https://accountability-framework.org/).

The DCF Operational Guidance supports companies through a process of assessment, setting commitments, and drafting a time bound implementation plan with milestones for engaging suppliers that not only covers direct but also indirect suppliers. To date (October 2020) over 50 large and medium-sized companies, in beef and soy supply chains, have engaged in this process. Currently a similar tool for investors is under development, expected to be ready by March 2021. This tool can be used by investors to collect information from companies on their targets, plans and status towards deforestation- and conversion-free supply chains in a structured and verified way. Based on this, investors can either decide to divest or engage, contributing to a reduction in deforestation and conversion.

McDonald's Corporation

The quick service restaurant sector has an important role to play to address deforestation/conversion through its sourcing of beef and other commodities. One example of a company in this sector that is since the 1980s working to exclude deforestation and conversion from its supply chains is McDonald's. Sixty-eight million people are served every day at McDonald's, which is approximately 1 percent of the world population. The aim of McDonald's is to eliminate deforestation from their global supply chains by 2030, and for the raw materials that they buy in the greatest volume, including beef, by 2020. To achieve their goals they work together with many initiatives, tools and frameworks to acquire knowledge. McDonald's commitment on no-deforestation includes: no deforestation of primary forests or areas of High Conservation Value, no development of High Carbon Stock forest areas and no development on peat lands, amongst other social and environmental criteria.[20]


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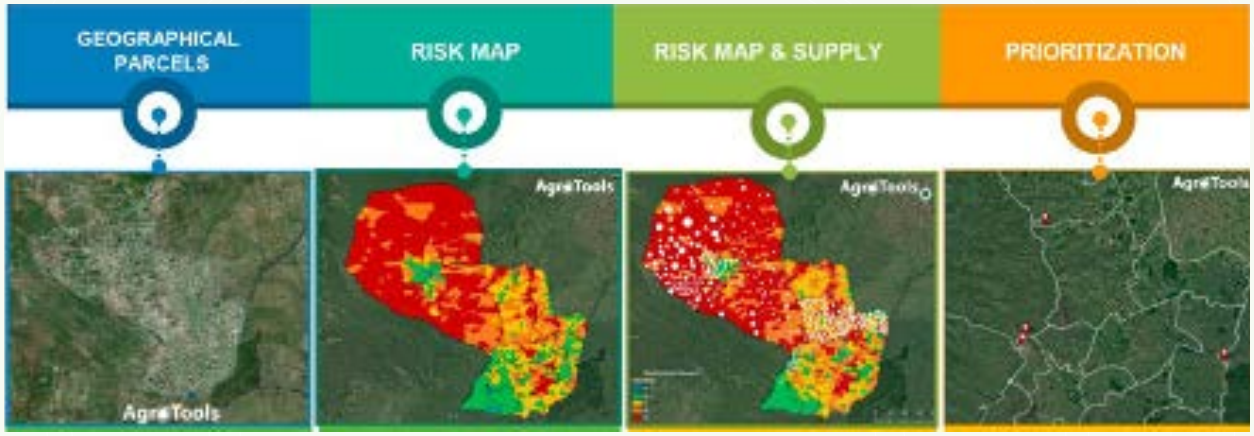
Figure 4 | **Risk mapping beef supply chain Paraguay (source McDonald's)**



In Latin-America, McDonald's has identified the following high-risk sourcing geographies for beef: the Amazon and Cerrado in Brazil and the Chaco in Paraguay and Argentina. For each of these areas they are working on detailed risk mapping in order to prioritize their efforts to eliminate deforestation from their supply chain.

As a pioneer, McDonald's learned some valuable lessons in this trajectory:

- It is important to work with tailored solutions - a one size fits all solution does not work and it is important to engage local stakeholders in the process;
- Positive language supports this engagement which is why McDonald's' message is about making deforestation and conversion company priorities instead of risks;
- Reporting continues to be a challenge and several initiatives such as the CFA Program, the Accountability Framework Initiative and the Carbon Disclosure Project (www.cdp.net/en) can be of help here;
- And it is important to ask the right questions and have data to substantiate and to realise that it is impossible to achieve zero risk.

5. Investor action and solutions

Investors have an important role to play and can influence companies to improve transparency and improve their performance. This in turn will lower investor risks and support creating sustainable value for their clients and participants. Deforestation, as an important ESG risk, is difficult to monitor due to the low data availability, complicated supply chains and different ecosystems affected. We will share some actions and solutions to start identifying risks related to cattle farming and start acting on deforestation risks that investors are currently adopting. This chapter presents three initiatives that were shared during the webinars series and does not intend to present a complete inventory of initiatives taking place.

ACTIAM & Satelligence – risk identification and integration

Dutch asset manager ACTIAM identifies deforestation risks on different financial products, with a focus on several soft commodities, including animal husbandry. Since 2018, ACTIAM has the target of no more deforestation through their investments by 2030. Currently, information to fully act upon this ambition is still scarcely available. That is why ACTIAM invests in partnerships and innovative tools as they are essential to understand the impact of its investments on land resources and to achieve its goal. ACTIAM (and several other investors) uses the Satelligence tool to identify forest loss and address the challenges financial institutions face, such as obtaining reliable data. Satelligence's data allows investors to detect and quantify changes in vegetation cover, e.g. caused by cattle production expansion or fires in forests, swamps and other natural areas. This detection is based on radar- and optical satellite imagery in combination with Artificial Intelligence. Unfortunately 'cattle laundering', as described in the previous chapters, and lack of transparency of the cattle supply chain remain hinderances for the best use of this technology.

CERES and UN PRI – collaborative engagement

Investors, as part of their active ownership, engage with companies to get a clear understanding of financial and ESG risks or controversies. Working as a group and drawing on the perspectives and expertise of a range of organisations supports investors in implementing their sustainable investment objectives. Collaborative engagement, in tandem with other escalation strategies (voting and divestment), is an effective method for sharing the investors' desired corporate or government response. UN PRI and CERES are important facilitators of investor statements and engagement trajectories related to cattle linked deforestation, especially in the Amazon and Cerrado region. The Investor Initiative for Sustainable Forests, run by both Ceres and UNPRI, supports investors in understanding how deforestation is linked within cattle supply chains and how it represents a material risk to companies.

In the past couple of years several investor statements and engagement programs have been kicked off, supported by a diverse group of investors:

- 14/09/2018 - Investors expectations on deforestation in cattle supply chains - endorsed by 44 investors representing approximately US $6.4 trillion in assets.
- 18/09/2019 - Investor statement on deforestation and forest fires in the Amazon - endorsed by 254 investors representing approximately US $17.7 trillion in assets.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Holding governments accountable – lobby & advocacy towards government

In June 2020, seven major European investment firms collaborated on a unique engagement, or rather a public statement, targeting the Brazilian government.[23] The investors stated they will divest from beef producers, grains traders, but also Brazilian government bonds if they do not see progress in resolving the year-on-year destruction of the Amazon rainforest. This means that the next level of escalation in their engagement strategy would be to start selling Brazilian governments bonds, with the risk of other funds following their lead. This was an unprecedent and important step forward in holding governments accountable.

6. Recommendations

Current sustainability policies of Dutch financial institutions are limited and there is a need for improvement. Therefore we have the following recommendations:

KEY RECOMMENDATIONS FOR DEVELOPING YOUR ZERO-DEFORESTATION AND -CONVERSION POLICY

Recommendation 1 | ***Use a clear definition of deforestation/conversion***

Financial Institutions' zero-deforestation commitments often do not clearly define what is meant by deforestation, nor which natural vegetation is being covered, which leads to incomparable policies and impact. Forests come in numerous forms, varying in composition, biophysical characteristics and diversity of flora and fauna. There are also many ways to define the loss of a forest, or deforestation. In addition the conversion of other natural vegetation such as grasslands, wetlands and savannahs is not covered in definitions of deforestation, while these ecosystems are equally affected by agricultural expansion. It is therefore advised to align policies with the definitions of the Accountability Framework Initiative (AFI) and include both no-deforestation and no-conversion (https://accountability-framework.org/). The AFI is a consensus-based set of norms, definitions, and guidance to achieve ethical supply chains in agriculture and forestry that can help set commitments, take action, and monitor progress.

Recommendation 2 | ***Use clearly specified cut-off dates***

Strong company and investor commitments related to deforestation or conversion specify cut-off date(s) addressing the full scope of the commitment. The cut-off date is the date after which deforestation or conversion renders a given area or production unit non-compliant with no-deforestation or no-conversion commitments, respectively. Company and investor commitments should specify cut-off dates that are no later than the date that the commitment is published. Set your cut-off date on or before the publication date of your commitment in order to decrease incentives for additional deforestation or conversion in advance of the cut-off date. Additionally, cut-off dates specified in company commitments must not be weaker than the legal requirements.

Recommendation 3 | ***Clearly distinguish between legal vs. illegal deforestation***

Often market parties opt for eliminating illegal deforestation from their supply chain as a first step. However, market parties trying to avoid illegal deforestation related to cattle ranching are stranded since in several countries a lack of access to official government data makes this impossible. Moreover, legality does not ensure the sustainability of natural resources since it often allows large-scale deforestation and conversion of natural vegetation to take place. For Brazil, Argentina and Paraguay alone it is estimated that close to 110 million hectares of forest can still be legally converted to other land uses. Legal protection of other natural habitats such as wetlands, shrublands or other natural vegetation is often minimal.[24] Therefore a zero-deforestation and conversion policy should not only address illegal deforestation but also legal deforestation and conversion.

Recommendation 4 | ***Make internal incentives part of your policy***

Create internal incentive structures that reward the growth and development of more sustainable finance transactions and portfolios. An example of this is that investors can aim for incentivized sustainability loans or bonds. For a food production company this could be non-deforestation objectives integrated in the sustainability linked loan. If the company meets or exceeds the non-deforestation objectives, it receives a bonus. If the company fails to reach its objectives or can not prove it, the investor can impose a penalty, or even be forced to carry out corrective actions the following year. The purpose of this measure is to evaluate the company not on its commitments but on its performance and actual achievements.

KEY RECOMMENDATIONS FOR IMPLEMENTING YOUR ZERO-DEFORESTATION AND -CONVERSION POLICY

Recommendation 5 | ***Make sure you understand the potential risk exposure***

Make sure you identify and understand the potential risk exposure in your lend book or portfolios associated with deforestation and land conversion in cattle value chains (beef and leather sectors), through implementing advanced monitoring tools and engaging with clients. If not, additional analysis is needed. However lack of detailed information available is no reason to postpone your conversation with your clients.

Recommendation 6 | ***Set clear expectations to all parties in the supply chain***

Express to your clients or investees that deforestation and land conversion is a priority issue and set clear time-bound expectations on actions you want them to take. If there is no direct exposure to beef production but indirect exposure through consumer goods, manufacturers or retail, make sure to also express these expectations towards companies further down the supply chain. Encourage your investees to join multi stakeholder platforms such as GRSB, and to engage locally and regionally in relevant platforms.

Recommendation 7 | ***Report transparently***

Check your clients' or investees' policies to make sure they have robust frameworks in place that align with current norms and guidance, such as DCF implementation action plans. Also make sure that these organisations can demonstrate that they are effectively implementing their policies, and regularly share their current implementation status. Based on their information report periodically on your policy implementation e.g. by providing aggregated statistics such as number and percentage of companies with time bound plans to achieve 'no conversion', number and percentage of companies who have achieved it, and number of companies that have been divested from.

Recommendation 8 | ***Share knowledge***

Play an active role in multi-stakeholder forums, global and local so that knowledge can be shared. As mentioned in Chapter 3, the GRSB (as do other roundtables and collective initiatives) welcomes financial institutions (FIs) to become a member. Currently, Rabobank is already an active member of the GRSB. This offers the financial institution additional insight and understanding of how the cattle ranching sector and beef markets function, as well as provides a platform where FIs can share with the sector what is crucial to them.


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Recommendation 9 | ***A pro-active perspective on opportunities***

Investors should not only focus on the identification of risks and acting upon material risks, but should also start removing the obstacles for acting on opportunities, e.g. climate smart-agriculture, sustainable intensification, forest restoration, investments in sustainable alternative proteins and protein diversification. Climate smart agriculture and forest restoration for example, can be pushed through valuating ecosystem services and internalized in impact investing structures or blended finance.

KEY RECOMMENDATIONS IN ENGAGING ON YOUR ZERO-DEFORESTATION AND CONVERSION POLICY

Recommendation 10 | ***Be an active lender or owner***
Demand companies to set commitments and build action plans to meet the deforestation and conversion-free goal and full disclosure of progress on the implemented actions. Be bold in what continued deforestation and conversion can mean for the mutual relationship and what the consequences are of underperformance. Divestment or higher interest rates can increase company incentive.

If necessary, engage collaboratively. As many investor initiatives have shown, collaborative action can enhance investors' impact, grow their expertise and knowledge, and improve efficiency of the engagement process.

We also recommend investors to join collective public statements towards governments or larger companies, thereby increasing the collective power through Assets under Management (AuM). Where relevant, engage with governments both in producing and consuming countries.

Recommendation 11 | ***Ask the right questions***
Although FIs often engage with companies on the sustainability of their operations, questions remain in general generic and do not go beyond the identification of company policies. However most of the challenges are found in the practical implementation of those policies. The previously mentioned Deforestation and Conversion Free (DCF) Operational Guidance for companies under the CFA initiative offers guidance to formulating more meaningful questions. A tool for investors will be available March 2021. FIs are welcome to contact WWF Brazil for more information paulapeirao@wwf.org.br. A few suggested engagement questions could be:

Risk identification | Does your company assess deforestation and conversion risks in its own cattle production and/or its cattle supply chain? How and how often? What methodologies are you using to do so and what are the challenges that you face?

Policy | Does your company have a policy that describes cattle linked deforestation and conversion and does this policy or commitment apply to all links in the supply chain (e.g. to direct suppliers as well as the extended supply chain)?

Supplier requirements | What are your cattle supplier requirements on deforestation and conversion? Are requirements the same for all suppliers, in all regions (not just Amazon Biome)? What kind of actions are taken when non-compliance is detected?

Traceability | How is your company working to increase traceability of its cattle supply? What percentage of cattle in the company's supply chain are traceable back to the farm level? What are the implementation plans and key milestones to reach 100% traceability?

Monitoring systems | Do you have monitoring, traceability and supplier screening systems in place? Do these systems cover all major forest-risk regions (or just the Amazon)? Do these systems cover indirect suppliers (or just their direct sourcing)? What percentage of these indirect suppliers do these systems cover? What are the implementation plans and key milestones to reach 100% monitoring of indirect suppliers?

Verification and non compliance | Does your company have a verification process or third party audit in place to confirm that suppliers are following through your commitments? Do you have a protocol for supplier non-compliance that facilitates and builds upon time-bound action plans for suppliers to reach full compliance and zero-deforestation?

Multi-stakeholder collaboration | Does your company interact with other stakeholders inside and outside of the supply chain on issues related to beef production? On what issues do you engage and what are the outcomes of these dialogues and partnerships?

Transparency | Does your company report and monitor the implementation of goals and the KPI's towards deforestation? Is this information publicly available?

Footnotes

[1] Dutch Central Bank and Netherlands Environmental Assessment Agency, 2020, Indebted to nature. Please refer to: www.dnb.nl/en/binaries/Indebted%20to%20nature%20_tcm47-389172.pdf

[2] www.fairr.org/index/

[3] www.globalcanopy.org/sites/default/files/documents/resources/Amazon-fires-final.pdf

[4] https://forest500.org/sites/default/files/forest500_annualreport2019_final_0.pdf

[5] Shared Resources Joint Solutions (SRJS) is a strategic partnership between IUCN NL, WWF NL and the Netherlands Ministry of Foreign Affairs, with VBDO as implementing partner. With SRJS the partners aim to strengthen the capacity of local NGOs and civil society organisations in sixteen low- and middle-income countries. The program aims to ensure climate resilience, water supply and food security by joining forces with the public and private sector. www.iucn.nl/en/partnership/shared-resources-joint-solutions

[6] www.worldwildlife.org/magazine/issues/summer-2018/articles/what-are-the-biggest-drivers-of-tropical-deforestation#:~:text=1&text=Beef%20production%20is%20the%20top,and%20fourth%20biggest%20drivers

[7] www.obt.inpe.br/OBT/assuntos/programas/amazonia/prodes

[8] www.fao.org/americas/prioridades/produccion-pecuaria/en/

[9] Fao, 2015. Please refer to: www.drovers.com/article/world-cattle-inventory-ranking-countries-fao

[10] Kaimowitz, David & Angelsen, Arild. (2008). Will Livestock Intensification Help Save Latin America's Tropical Forests?. Journal of Sustainable Forestry. 27. 6-24. 10.1080/10549810802225168.

[11] Source: Presentation Guyra Paraguay.

[12] https://wwf.panda.org/discover/our_focus/forests_practice/deforestation_fronts2/deforestation_in_the_amazon/

[13] www.worldwildlife.org/places/cerrado

[14] http://terrabrasilis.dpi.inpe.br/downloads/

[15] CWE = Carcass Weight Equivalent

[16] www.greenpeace.org/usa/wp-content/uploads/legacy/Global/usa/report/2010/1/minimum-criteria-for-i.pdf

[17] https://forest500.org/sites/default/files/forest500_annualreport2019_final_0.pdf

[18] www.wwf.org.br/natureza_brasileira/reducao_de_impactos2/agricultura/agr_acoes_resultados/copy_of_colaboracao_para_florestas_e_agricultura__cfa___27062017_1949/

[19] www.worldwildlife.org/magazine/issues/summer-2018/articles/what-are-the-biggest-drivers-of-tropical-deforestation

[20] https://corporate.mcdonalds.com/content/dam/gwscorp/scale-for-good/McDonaldsCommitmentOnForests.pdf

[21] https://satelligence.com/news/2020/7/15/geodata-for-financial-institutions

[22] https://satelligence.com/news/2020/11/13/actiamengagementinitiative

[23] https://mobile.reuters.com/article/amp/af/idUSKBN-23Q1MU

[24] www.iucn.nl/files/publicaties/an_analysis_of_existing_laws_on_forest_protection_la_final.pdf

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