



# Financial institution Assessment methodology 2018

How are the 150 financial institutions in the Forest 500 assessed and ranked?

**About the Forest 500:**

Forest 500, a Global Canopy project, identifies and ranks the most influential companies and financial institutions in the race towards a deforestation-free global economy.

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## INTRODUCTION

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The financial institutions included within the Forest 500 have the power to influence the sustainability of forest risk commodity supply chains through their investments and lendings. By setting clear expectations and engaging with companies involved in agricultural commodity supply chains, financial institutions can help to accelerate the transition towards sustainable production and procurement. The Forest 500 identifies and ranks the 150 financial institutions that have the power to create an enabling framework where sustainable business practices are incentivised and disincentives are in place to reduce unsustainable practices.

The 150 financial institutions selected either invest directly or are at risk of investing in or lending to companies engaged in forest risk commodity supply chains. This methodology lays out the criteria which the 150 financial institutions are assessed against. Over time, as feedback is received, this methodology will be updated. Financial institutions will be ranked on an annual basis and reselected biannually.

## SCORE BREAKDOWN

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There are four general categories of criteria against which financial institutions have been assessed.

POLICY AREA	MAXIMUM POINTS
Awareness, understanding, intent	16
Policy content and strength	48
Scope	16
Implementation, monitoring, and reporting	20
<b>TOTAL</b>	<b>100</b>

## CHANGES TO THE ASSESSMENT METHODOLOGY

The methodology has been reviewed by sector experts and several questions have been refined or added to capture current thinking as to the policies that should be expected of financial institutions investing in or lending to companies involved in agricultural commodity supply chains. More details below.

NUMBER	ORIGINAL INDICATOR	CHANGE TO INDICATOR	NEW INDICATOR (IF APPROPRIATE)
2.3	The financial institution requires that companies' business operations do not adversely impact protected areas and areas of global conservation importance including Primary/Intact/Natural/High Conservation Value/High Carbon Stock forests or require physically segregated commodities that meets these requirements.	In 2017 points were staggered by whether an assurance method was specified. In 2018 this was split out into a new indicator.	
	NEW INDICATOR		2.4 The financial institution requires companies to have an assurance mechanism in place to ensure that commodities are sourced without impacting the priority forest types in indicator 2.3.
	NEW INDICATOR		2.6 The financial institution requires companies to have thorough and transparent mechanisms for grievances in relation to their operations and supply chains to be reported
2.5	The financial institution has a policy that requires companies to ensure their business operations meet key labour standards	Financial institutions need to require at least the ILO's four fundamental principles and rights at work to score here.	Now 2.7
	NEW INDICATOR		2.8 The financial institution has a policy that requires companies to addresses gender equality issues in relation to their suppliers
	NEW INDICATOR		2.9 The financial institution has a policy that requires companies to encourage the inclusion of small-scale farmers in their supply chains

## AWARENESS, UNDERSTANDING, INTENT

NUMBER	INDICATOR	MAX. POINTS
1.1	The financial institution has an overarching commitment to remove or reduce the amount of deforestation and/or conversion of all natural ecosystems caused by companies in their portfolio, or a clear statement of intent to tackle deforestation/conversion, or an awareness of the impacts of deforestation/conversion.	<b>16 pts</b>
Guidance	<p><i>Overarching commitments must be for their own financing, and therefore financial institutions signing up to finance sector initiatives to end or reduce soft commodity driven deforestation (e.g. BEI Soft Commodity Compact) the agreement do not receive full points for this indicator. For the purposes of this assessment, financial institutions that require timber and pulp &amp; paper companies to commit to well implemented timber harvest that maintains the composition, structure, and function of forests over time and the protection of high priority forests areas including high carbon stock and high conservation value areas (alongside zero deforestation across other focal commodities) are awarded points for having an overarching deforestation-free commitment.</i></p> <p><i>Some interpretation has been required where the terms 'zero' or 'zero net' have not been used in relation to commitments, e.g. commitments to 'eliminate' deforestation have been interpreted as deforestation-free.</i></p> <p><i>Financial institutions can score for 'awareness' by either showing an awareness of the value of forests, or the risks associated with deforestation, somewhere in their company communications.</i></p>	<p><i>Conversion-free commitment or a deforestation-free commitment that explicitly includes all other natural ecosystems: <b>15 pts</b></i></p> <p><i>Deforestation-free commitment: <b>12 pts</b></i></p> <p><i>Zero net deforestation commitment: <b>10 pts</b></i></p> <p><i>Reduce deforestation: <b>8 pts</b></i></p> <p><i>Statement on deforestation/conversion showing understanding of risks: <b>4 pts</b></i></p> <p><i>Signatory to the BEI's Soft Commodity Compact or another finance sector initiative on deforestation: <b>4 pts</b></i></p> <p><i>No overarching commitment: <b>0 pts</b></i></p>

## POLICY CONTENT AND STRENGTH

NUMBER	INDICATOR	MAX. POINTS
2.1	The financial institution has commodity-specific policies or explicitly states that their overarching policy applies to specific commodity supply chains	<b>8 pts</b>
Guidance	<p><i>Full points are awarded if a financial institution has a policy to only invest in or lend to sustainably managed commodity operations; or if it has a policy with the goal of reducing deforestation from such a commodity; or if it has an overarching sustainability policy that clearly implies the inclusion of the specific commodity.</i></p> <p><i>Types of policies captured under this indicator include – conversion-free (zero conversion), deforestation-free (zero deforestation), zero net deforestation, reduce deforestation, other type of commitments that protects forests &amp; other natural ecosystems, commitments to credible certification schemes, or commitments to produce or procure 'sustainably' or 'responsibly' produced commodities.</i></p> <p><i>Commitments under this indicator are classified under these categories to enable differentiation among financial institutions on the level of ambition of commitments falling under this indicator.</i></p>	<p>Yes: 8 pts No: 0 pts</p>
2.2	The financial institution requires companies to provide proof that their operations and business practices comply with all applicable local, national, and international laws and regulations.	<b>4 pts</b>
Guidance	<p><i>To be awarded points, the financial institution must require that companies in their portfolios provide evidence that all commodities that they use are legally produced along the entire supply chain. Half points are awarded if the company is only required to provide evidence that their own business is legally operated. Fewer points are awarded if the financial institution does not require evidence but does encourage companies to comply.</i></p>	<p>Entire supply chain - Requires: <b>4 pts</b> Entire supply chain – Encourages: <b>3pts</b> Own operations – Requires: <b>2 pts</b> Own operations – Encourages: <b>1 pt</b></p>
2.3	The financial institution requires that companies' business operations do not adversely impact protected areas and areas of global conservation importance including Primary/Intact/Natural/High Conservation Value/High Carbon Stock forests or require the use of certified commodities that meets these requirements.	<b>8 pts</b>
Guidance	<p><i>The financial institution requires portfolio companies to prevent activities that could impact globally important landscapes. Policies should explicitly mention Primary/Natural/Intact/HCV/HCS forests. Companies can either do this directly or rely on credible certification schemes that ensure these forest types are not impacted.</i></p> <p><i>Areas of global conservation importance include protected areas, UNESCO World Heritage Sites and RAMSAR wetlands. Total points are constructed from whether the financial institution requires or encourages companies to not impact all priority landscape types or a subset of these landscapes.</i></p>	<p>All high priority landscapes: <b>4 pts</b> Subset of priority landscapes: <b>2 pts</b> + Requires: <b>4 pts</b> Encourages: <b>2 pts</b></p>
2.4	The financial institution requires companies to have an assurance mechanism in place to ensure that commodities are sourced without impacting the priority forest types in indicator 2.3.	<b>4 pts</b>

Guidance	<p>Full points are awarded if the bank requires companies to have an assurance mechanism either through a credible third party certification scheme or have a system to track and monitor the origin of the commodity in order to be able to ascertain compliance.</p> <p>Downstream companies should trace supplies upstream to a level where they are able to ascertain compliance or detect non-compliance with their sourcing commitments. To score points for traceability system, Financial institutions should ask all companies to trace supplies back to plantation, or ask upstream companies (producers, processors, traders) to trace back to plantation and downstream companies (manufacturers and retailers) to trace back to at least first importer <b>and conduct sufficient</b> due diligence checks to ascertain that supplies from that importer are compliant with their commitment.</p>	<p>Require certification or traceability system: <b>4 pts</b></p> <p>Encourage certification or traceability system: <b>2 pts</b></p>
2.5	The financial institution requires the company to ensure the Free, Prior and Informed Consent of indigenous and local communities	<b>4 pts</b>
Guidance	Use of the term FPIC in reference to indigenous people and local communities is required to score points under this indicator. The policy should apply for at least one of the commodities for which there is a policy, for the overall sustainability policy or for general lending and investment criteria.	<p>Requires: <b>4 pts</b></p> <p>Encourages: <b>2 pts</b></p>
2.6	The financial institution requires companies to have thorough and transparent mechanisms for grievances in relation to their operations and supply chains to be reported	<b>4 pts</b>
Guidance	To be awarded full points the bank must require companies to have grievance mechanisms in place to identify and remedy adverse social and environmental impacts linked to their operations. The grievance mechanisms open to all stakeholders.	<p>Requires: <b>4 pts</b></p> <p>Encourages: <b>2 pts</b></p>
2.7	The financial institution has a policy that requires companies to ensure their business operations meet key labour standards	<b>4 pts</b>
Guidance	<p>Key labour standards include those laid out in the United Nations (UN) Declaration of Human Rights, UN Guiding Principles on Business and Human Rights, IFC Performance Standard 2 and the ILO core conventions: ILO Convention 87 on Freedom of Association and Protection of the Right to Organize, ILO Convention 98 on the Right to Organize and Collective Bargaining, ILO Convention 29 on Forced Labor, ILO Convention 105 on the Abolition of Forced Labor, ILO Convention 138 on Minimum Age (of Employment), ILO Convention 182 on the Worst Forms of Child Labor, ILO Convention 100 on Equal Remuneration, ILO Convention 111 on Discrimination (Employment and Occupation), UN Convention on the Rights of the Child, Article 32.1 UN Convention on the Protection of the Rights of all Migrant Workers and Members of their Families.</p> <p>To score for this indicator financial institutions should at least require companies to ensure their business meet the ILO's four fundamental principles and rights at work.</p>	<p>Entire supply chain - Requires: <b>4 pts</b></p> <p>Entire supply chain – Encourages: <b>3pts</b></p> <p>Own operations – Requires: <b>2 pts</b></p> <p>Own operations – Encourages: <b>1 pt</b></p>
2.8	The financial institution has a policy that requires companies to addresses gender equality issues in relation to their suppliers	<b>4 pts</b>
Guidance	<p>Companies should be required to address gender inequality in commodity supply chains including addressing gender related worker &amp; human rights and encouraging the inclusion of women in commodity supply chains on equal terms.</p> <ul style="list-style-type: none"> <li>Labour and worker's rights commitments should address different risks of women and men with particular attention to sexual and gender-based harassment, equal pay and remuneration, and gender-based discrimination</li> <li>Commitments should encourage the inclusion of women in commodity supply chains on equal terms. This can include increasing sourcing of commodities from producers that are making an active effort to increase the participation of women in commodity supply chains, and addressing issues faced by women in agricultural supply chains including but not limited to securing land rights and increasing access to technology, financial services, training, and markets.</li> </ul>	<p>Companies must address gender related worker and labour rights AND the inclusion of women on equal terms across their whole supply chain:</p> <p>Required - 4 pts</p> <p>Encouraged - 3 pts</p>

	<p><i>Full points are awarded if the financial institution's policy addresses both gender related worker &amp; human rights and encouraging the inclusion of women in commodity supply chains on equal terms. This can include an explicit commitment to apply the United Nations Women's Empowerment Principles.</i></p> <p><i>Half points are awarded if a company has a commitment for addressing either gender related worker &amp; human rights or encouraging the inclusion of women in commodity supply chains on equal terms.</i></p>	<p><i>Companies must address gender related worker and labour rights OR the inclusion of women on equal terms across whole SC:</i></p> <p><i>Required - 3 pts</i> <i>Encouraged - 2 pts</i></p> <p><i>Companies must address gender related worker and labour rights only for own operations</i></p> <p><i>Required: 1</i> <i>Encouraged: 0.5</i></p> <p><i>None: 0pts</i></p>
2.9	The financial institution has a policy that requires companies to encourage the inclusion of small-scale farmers in their supply chains	<b>4 pts</b>
Guidance	<i>Companies should be required to encourage and/or increase small-scale farmer participation in commodity supply chains and/or increasing investments and/or capacity in improving the yields and livelihoods of small-scale farmers in regions companies source from. This can include increasing the number of small-scale farmers they source from and providing training, financial, and/or technical support to increase the productivity and quality of small-scale farmer commodity production, encourage product diversification, and/or facilitate greater market access from small-scale farmers they source from. Commitments can also focus on developing long-term stable business partnerships with small-scale farmers and developing fair and transparent contracts that do not exploit small-scale farmers.</i>	<i>Requires: 4 pts</i> <i>Encourages: 2 pts</i>
2.10	The financial institution has a policy that requires companies' policies to be timebound.	<b>4 pts</b>
Guidance	<i>Financial institutions either impose a deadline on their portfolio companies in their commodity policy or ask companies to have time-bound policies in place. Financial Institutions also score points here if their policies are prerequisites for financing, as these are interpreted as timebound, current policies.</i>	<i>Requires: 4 pts</i> <i>Encourages: 2 pts</i>

## POLICY SCOPE

NUMBER	INDICATOR	MAX. POINTS
3.1	The financial institution applies the policy to all of their operations and financial services provided.	<b>4 pts</b>
Guidance	<i>Policies that only apply to subsidiaries of the financial institution, or only apply to certain types of financing (e.g. corporate lending, project finance, asset management, advisory services), only apply to a subset of financing.</i>	<i>All financing: <b>4 pts</b> Subset of financing: <b>2 pts</b></i>
3.2	The financial institution applies the policy to all deals regardless of size.	<b>4 pts</b>
Guidance	<i>For financial institutions to be awarded full points, they must apply their policies to all companies that they lend or invest in. FIs that only apply policies to companies where deal size is above or below a threshold receive fewer points.</i>	<i>All financing: <b>4 pts</b> Subset of financing: <b>2 pts</b></i>
3.3	The financial institution applies the policy to companies regardless of their size.	<b>4 pts</b>
Guidance	<i>For full points, policies must apply to all companies regardless of their size. Policies that only apply to e.g. small-holders or to companies larger than a certain threshold receive fewer points.</i>	<i>All companies: <b>4 pts</b> Subset of companies: <b>2 pts</b></i>
3.4	The financial institution applies the policy to companies regardless of their position in soft commodity supply chains (producers, processors, traders, manufacturers, and retailers).	<b>4 pts</b>
Guidance	<i>For financial institutions to be awarded full points, they must apply their policies to companies in all segments of the supply chain, from producers to retailers. Policies that only apply to some segments receive fewer points.</i>	<i>All companies: <b>4 pts</b> Subset of companies: <b>-0.8 pts per supply chain segment not covered under policy</b></i>

## IMPLEMENTATION, MONITORING AND REPORTING

NUMBER	INDICATOR	MAX. POINTS
4.1	The financial institution has a clear, time-bound process for updating its policy.	<b>5 pts</b>
Guidance	<i>Half points are awarded if policies are not reviewed at least annually.</i>	<i>Annual or more frequent review: <b>5 pts</b> Timeline for review unclear or review conducted less frequently than annually: <b>2.5 pts</b></i>
4.2	Financial institutions require companies to disclose subsidiaries operating in soft commodity supply chains.	<b>5 pts</b>
Guidance	<i>Half points are awarded if subsidiaries need to only be reported privately to the financial institution.</i>	<i>Public reporting: <b>5 pts</b> Private reporting: <b>2.5 pts</b></i>
4.3	The financial institution has a clear public process to identify and deal with policy non-compliance.	<b>5 pts</b>
Guidance	<i>This indicator focuses on whether a company has internal procedures to assess new investments or lending activities against their sustainability policies. Financial institutions can either specify details of a screening and monitoring process or make a time-bound non-compliance statement. If the non-compliance statement is not time-bound, then half-points are awarded.</i>	<i>Screening and monitoring process: <b>5pts</b> Time-bound non-compliance statement: <b>5 pts</b> General non-compliance statement: <b>2.5 pts</b></i>
4.4	The financial institution reports the number or proportion of portfolio companies compliant with their time-bound plans or the number or proportion of companies in compliance with the financial institution's policy.	<b>5 pts</b>
Guidance	<i>The financial institution should report progress against its policy. For example, how many companies assessed as part of their due diligence are classified as high/low risk or how many companies have been engaged on deforestation risks.</i>	<i>Annually: <b>5 pts</b> Less than annually: <b>2.5 pts</b></i>



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