



Financial institution Assessment methodology 2019

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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About Global Canopy:

Global Canopy is an innovative environmental organisation that targets the market forces destroying tropical forests. Since 2001, we have been testing new approaches to tackling deforestation, and guiding companies, investors and governments worldwide to think differently about our planet's forests. See: www.globalcanopy.org

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INTRODUCTION

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.

The institutions are assessed against the information which has been made publicly available on their websites. Wherever possible financial institutions are assessed in their native language to allow for subjectivities in language.

This methodology was created in 2014 and has been reviewed annually by Global Canopy and external experts working on these issues, to ensure that it continues to reflect best practice in financial institution action on deforestation. Scores are automatically calculated according to how answers are categorised by the assessor as per the methodology in this document.

SCORE BREAKDOWN

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

POLICY AREA	MAXIMUM POINTS
Overall approach	16
Commitment strength	42
Social considerations	22
Reporting and Implementation	20
TOTAL	100

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.	16 pts
Guidance	<p><i>Overarching commitments must be financial institution-wide (i.e. must apply to all financing). Conversion-free is understood as no conversion of natural ecosystems anywhere (also referred to as zero/zero gross conversion), deforestation-free is understood as no loss of natural forests anywhere (also referred to as zero/zero gross deforestation), while zero net deforestation is understood as a commitment to offset forest loss through forest restoration.</i></p> <p><i>Four points are available for financial institutions that have signed up to finance sector initiatives to end or reduce soft commodity driven deforestation (e.g. BEI Soft Commodity Compact), or that show an awareness in their communications of the risks of deforestation or the value of forests and forest protection.</i></p>	
Answer options	Conversion-free commitment or a deforestation-free commitment that explicitly includes all other natural ecosystems	16
	Deforestation-free commitment	12
	Zero net deforestation commitment	10
	Reduce deforestation	8
	Statement on deforestation/conversion showing understanding of risks	4
	Signatory to the BEI's Soft Commodity Compact or another finance sector initiative on deforestation	4
	No overarching commitment	0

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	8 pts
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 & other natural ecosystems, commitments to credible certification schemes, or commitments to produce or procure 'sustainably' or 'responsibly' produced commodities. 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>	
Answer options	Yes	8
	No	0
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.	4 pts
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>	
Answer options	Entire supply chain - Required	4
	Entire supply chain – Encouraged	3
	Own operations – Required	2
	Own operations – Encourages	1

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.	8 pts
Guidance	<p><i>Full points are awarded if the financial institution requires portfolio companies to prevent activities that could impact globally important landscapes (including UNESCO World Heritage Sites, RAMSAR wetlands, IUCN category 1-4 areas, protected areas) and protect Primary/Natural/Intact/HCV/HCS forests or similar. Policies that require companies to use credible certification schemes that ensure these forest types are not impacted, can be interpreted as a policy to protect Primary/Natural/Intact/HCV/HCS forests.</i></p> <p><i>Financial institutions score fewer points if they only protect one of these types of priority landscapes. 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>	
Answer options	All high priority landscapes - Required	8
	All high priority landscapes – Encouraged	6
	Subset of priority landscapes - Required	6
	Subset of priority landscapes – Encouraged	4
2.4	The bank 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.	4 pts
Guidance	<p><i>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. Financial institutions cannot score here if they do not protect priority landscapes in 2.3.</i></p> <p><i>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 and conduct sufficient due diligence checks to ascertain that supplies from that importer are compliant with their commitment.</i></p>	
Answer options	Required	4
	Encouraged	2
2.5	The financial institution requires the company to ensure the Free, Prior and Informed Consent of indigenous and local communities	4 pts
Guidance	<p><i>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.</i></p>	
Answer options	Required	4
	Encouraged	2
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	4 pts
Guidance	<p><i>To be awarded full points the bank must require companies to have grievance mechanisms in place to identify and remedy adverse social and/or environmental impacts linked to their operations.</i></p>	
Answer options	Required	4
	Encouraged	2

2.7	The financial institution has a policy that requires companies to ensure their business operations meet key labour standards	4 pts
Guidance	<p><i>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.</i></p> <p>Financial institutions must require all four of the key labour standards, or explicitly commit to the ILO or UN Declaration of Human Rights in order to score here.</p>	
Answer options	Entire supply chain – Required	4
	Entire supply chain – Encouraged	3
	Own operations – Required	2
	Own operations – Encouraged	1
2.8	The financial institution has a policy that requires companies to addresses gender equality issues in relation to their suppliers	4 pts
Guidance	<p><i>Companies should be required to address gender inequality in commodity supply chains including addressing gender related worker & human rights and encouraging the inclusion of women in commodity supply chains on equal terms.</i></p> <ul style="list-style-type: none"> <i>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</i> <i>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.</i> <p><i>Full points are awarded if the financial institution’s policy addresses both gender related worker & 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 & human rights or encouraging the inclusion of women in commodity supply chains on equal terms.</i></p>	
Answer options	Companies must address gender related worker and labour rights AND the inclusion of women on equal terms across their whole supply chain - Required	4
	Companies must address gender related worker and labour rights AND the inclusion of women on equal terms across their whole supply chain – Encouraged	3
	Companies must address gender related worker and labour rights OR the inclusion of women on equal terms across whole SC – Required	3
	Companies must address gender related worker and labour rights OR the inclusion of women on equal terms across whole SC – Encouraged	2
	Companies must address gender related worker and labour rights only for own operations – Required	1
	Companies must address gender related worker and labour rights only for own operations - Encouraged	0.5

2.9	The financial institution has a policy that requires companies to encourage the inclusion of small-scale farmers in their supply chains	4 pts
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>	
Answer options	Required	4
	Encouraged	2
2.10	The financial institution has a policy that requires companies' policies to be timebound.	4 pts
Guidance	<i>Financial institutions either impose a deadline on their portfolio companies in their policy or ask companies to have time-bound policies in place to meet the requirements in 2.1 or 2.3 only. Financial Institutions also score points here if their policies are prerequisites for financing, as these are interpreted as timebound, current policies.</i>	
Answer options	Required	4
	Encouraged	2

POLICY SCOPE

NUMBER	INDICATOR	MAX. POINTS
3.1	The financial institution applies the policy to all of their operations and financial services provided.	4 pts
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>	
Answer options	All financing	4
	Subset of financing	2
3.2	The financial institution applies the policy to all deals regardless of size.	4 pts
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>	
Answer options	All financing	4
	Subset of financing	2
3.3	The financial institution applies the policy to companies regardless of their size.	4 pts
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>	
Answer options	All financing	4
	Subset of financing	2
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).	4 pts
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>	
Answer options	All financing	4
	Subset of financing	-0.8 pts per supply chain segment not covered under policy

IMPLEMENTATION, MONITORING AND REPORTING

NUMBER	INDICATOR	MAX. POINTS
4.1	The financial institution has a clear, time-bound process for updating its policy.	5 pts
Guidance	<i>Half points are awarded if policies are not reviewed at least annually.</i>	
Answer options	Annual or more frequent review	5
	Timeline for review unclear or review conducted less frequently than annually	2.5
4.2	Financial institutions require companies to disclose subsidiaries operating in soft commodity supply chains.	5 pts
Guidance	<i>Half points are awarded if subsidiaries need to only be reported privately to the financial institution.</i>	
Answer options	Public reporting	5
	Private reporting	2.5
4.3	The financial institution has a clear public process to identify and deal with policy non-compliance.	5 pts
Guidance	<i>This indicator focuses on whether a financial institution 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>	
Answer options	Screening and monitoring process	5
	Time-bound non-compliance statement	5
	General non-compliance statement	2.5
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.	5 pts
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. This can be included in ESG reporting as long as the proportion compliant with the commodity or deforestation policy can be ascertained.</i>	
Answer options	Annually	5
	Less than annually	2.5



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