Deforestation Risk Identification and Assessment

Additional Materials

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Overview

The following list of materials provide further information on the material presented in the global training for banks on 'Deforestation Risk Identification and Assessment'. These consist of reports, publications, articles, briefs, guides, videos, projects and tools that can be used to further explore the issues presented, organised following the training course structure.

Part A - Preparatory Stage

Section 1: Objective-setting and scoping

- ISO 31000:2018 Risk Management - Guidelines: *Website* on ISO's Risk Management principles, framework, design and process.
- Enterprise Risk Management: Applying enterprise risk management to environmental, social and governance-related risks (COSO and WBCSD, 2018): *Report* on applying COSO's enterprise risk management (ERM) framework, where companies can integrate environmental, social and governance-related risks (ESG) into the ERM processes.
- Integrating Natural Capital Risk Assessment: A step-by-step guide for banks (Natural Capital Finance Alliance & PwC, 2018): *Report* that provides a step-by-step guide to help financial institutions to conduct a rapid natural capital assessment and how to perform a sector/asset to assess the likelihood and likely impact of disruption that businesses in their portfolios face due to environmental change. [Module 1 Resource]
- Investor Guide to Deforestation and Climate Change (Ceres, 2020): *Report* that provides a framework for investors to help them understand and engage on deforestation-driven climate risks across their portfolios. [Module 1 Resource]
- Increasing transparency of banks: The transition to sustainable lending to the forest risk commodity sector (CDP, 2020): *Summary report* that shows how banks play a role in funding deforestation. [Module 1 Resource]
- Connecting Finance and Natural Capital – Supplement to the Nature Capital Protocol (Natural Capital Coalition, 2018): *Report* that provides a framework for financial institutions (FIs) to assess the natural capital impacts and dependencies of their investments and portfolios. This supplement is based on the structure of the Natural Capital Protocol, a standard decision-making process written for companies, consisting of four steps covering "why", "what", "how" and "what's next". [Module 1 Resource]
- Risk Assessment in Practice (Deloitte & Touche LLP, 2012): *Report* that provides a process for developing a risk assessment criteria, assessing risks and risk interactions, as well as prioritizing risks, and provides discussion on how to actually put these processes into practice.
- Natural Capital Credit Risk Assessment in Agricultural Lending: An approach based on the Natural Capital Protocol (Natural Capital Finance Alliance, 2019): *Report* that provides a framework for banks to conduct a natural capital credit risk assessment across different agricultural sectors and geographies.

Section 2: Identifying deforestation risks

- Development of tools and mechanisms for the integration of environmental, social and governance (ESG) factors in the EU banking prudential framework and into banks' business strategies and investment policies (BlackRock Financial Markets Advisory and European Commission, 2020): *Report* that focusses on the current practices by banks and supervisors

on integrating ESG factors within the EU banking prudential framework as part of the Action Plan on Sustainable Finance.

- Data Deep Dive (Forests&Finance, 2021): ***Website*** providing data links between financiers and deforestation-risk companies.
- Deforestation-risk companies (Deforestation Free Funds, 2021): ***Website*** providing information on agricultural commodity producers and traders, banks and lenders directly and directly involved in deforestation-risk producers and traders, and major consumer brands which source forest risk commodities.
- Forest Responses (CDP, 2021): ***Website*** providing information on companies which have reported progress towards forest-related risks and opportunities.
- Forests & Finance financial research methodology (Forests and Finance, 2020): ***Report*** that provides the financial research methodology used within the Forests and Finance company selection methodology, the types of finance included within the study, the calculated elements in the corporate financing research, and financial research data resources.
- Trase Finance: ***Tool*** that builds on Trase's supply chain mapping capabilities for key commodities and regions to link the trade of commodities that drive deforestation to financial markets.
- Trase Earth: ***Tool*** which has supply chain mapping capabilities for key commodities and regions to link the trade of commodities to deforestation.
- Company selection methodology 2020 (Forest 500, 2020): ***Document*** that provides the company selection methodology for the Forest 500.
- Deforestation Risk and German Financial Institutions (Climate Advisers Trust, 2021): ***Report*** on assessing and quantifying German exposure to companies without policies in place to mitigate deforestation risk.
- Lending Forests A Hand: Results from the CDP Financial Services Climate Change and Forests Pilot 2020 (CDP, 2021): ***Report*** that looks at data disclosed by companies using or producing commodities responsible for the majority of agriculture-related deforestation.
- TCFD-aligned Framework to Assess Deforestation Risks (CRR, 2021): ***Report*** that presents a framework for assessing deforestation-related risks in agricultural commodity supply chains that is aligned with the Task Force for Climate-Related Financial Disclosure principles.
- The roadmap to financing deforestation-free commodities (World Economic Forum, 2018): ***Report*** that provides the business case for financial institutions to take action towards deforestation risk and provides recommendations on how financial institutions and other stakeholders in the soft commodity value chain can provide an enabling environment towards financing deforestation-free commodities.
- A journey from ESG ratings to sustainable indices (Nordsip, 2019): ***Website*** providing information on how ESG ratings are developed.

Section 3: Introduction to deforestation risk assessment
Please see references in Part B below.

Part B - Assessing Deforestation Risks
Section 1: Reputational lens

- Reputation Risk – A rising c-suite imperative (Oliver Wyman, 2014): ***Report*** on how reputational risks can affect businesses, the different factors that influence impact, the key

characteristics of risk management frameworks and the identification of key roles and responsibilities that must be allocated within a company.

- Global Survey on Reputation Risk (Deloitte, 2015): **Report** which examines how companies view and manage reputational threats and opportunities, featuring in-depth, insightful interviews with executives from leading global companies.
- Financial Services Climate Change and Forests Pilot Results 2020 (CDP, 2021): **Report** that looks at data disclosed by 553 companies using or producing seven commodities responsible for the majority of agriculture-related deforestation.
- Country Selection Methodology 2020 (Forest500, 2020): **Document** that provides country selection methodology for the Forest500.
- GMAP Tool & Reports (IFC, 2021): **Tool** which uses geographic data, secondary research, and WWF and IFC expertise to identify and analyse supply chain risks to support short-term finance and trade decision-making.
- Global Forest Watch Dashboard (GlobalForestWatch, 2021): **Tool** to explore interactive charts and maps that summarize key statistics about global forests – these include rates of forest change, forest extent and drivers of deforestation.
- Sustainable By Nature: Out Biodiversity Roadmap (BNP Paribas Asset Management, 2021): **Report** that covers BNP Paribas' position on the biodiversity crisis and how they are actively responding to it.
- Barclays Soft Commodities Compact Progress Report (Barclays, 2019): **Report** that describes Barclays' approach and progress in implementing a commitment which supports clients in the soft commodities supply chain to achieve zero net deforestation by 2020 within the supply chains of palm oil, timber products and soy.
- Deforestation tools assessment and gap analysis: How investors can manage deforestation risk (Hindsight Consultancy, 2020): **Report** that aims to support investors to manage deforestation risks in a systematic manner, by identifying relevant tools and data gaps and presenting options for integrating deforestation data into existing systems for ESG and risk analysis.
- The Hidden Cost of Reputation Risk: An Approach to Quantifying Reputation Risk Losses (Oliver Wyman, 2017): **Report** that provides a new four step methodology to mitigate financial exposure and proactively manage reputational risks before they materialize.
- Deforestation-driven Reputation Risk Could Become Material for FMCGs (CRR, 2019): **Study** that explores the scientific knowledge on valuing deforestation-driven reputation risk for fast-moving consumer foods (FMCG) companies who have committed to a 2020 deadline to end deforestation within their supply chains.
- Chinese Banks' Forest-Risk Financing – Financial Flows and Client Risks (Profundo, 2021): **Report** that provides an overview of the financing of forest-risk companies engaged in six deforestation-risk commodities in three forest-rich regions by Chinese financial institutions. It recommends a number of concrete steps to mitigate ESG related financial risks and improve the corporate behaviour of the clients on the ground.
- Using Public Data Platforms To Assess Deforestation Risks within Jurisdictions (WWF, 2017): **Report** that outlines the Jurisdictional Risk Assessment which explores the potential applications of public data platforms to allow companies, government, and other end-users to assess certain jurisdictions and their potential association with illegal deforestation.
- Big meat. Big bucks. Bigger harm. Animal welfare and European financial links with deforestation in the Amazon and Cerrado (WorldAnimalProtection, 2020): **Report** that

investigates the financial involvement of European financial institutions in deforestation in the Amazon and Cerrado regions.

Section 2: Legal lens

- [Financing Deforestation Increasingly Risky Due to Tightening Regulatory Frameworks (CRR, 2020)](): ***Report*** that analyses the integration of sustainability in financial regulation on the international level, as well as in regulatory frameworks of five countries with tropical forests: Brazil, Colombia, Peru, Indonesia and Malaysia.
- [Sustainable Forest Finance Toolkit (PwC, 2010)](): ***Report*** that provides an overview of how to use the Toolkit, a globally applicable resource that has been designed to assist and inform forest sector lending and investment decisions, specifically focussing on the production and processing of forest products, carbon and ecosystem services markets.
- [The Sourcing Hub (Preferred by Nature, 2021)](): ***Tool*** to help users better understand whether a country has a high legal risk according to four commodities – timber, beef, soy and palm oil.
- [Global Forest Watch Fires (GlobalForestWatch, 2021)](): ***Tool*** to help users to monitor data related to forest fires to the subnational level.
- [Landscope (TMP Public, 2021)](): ***Tool*** to help users measure tenure risk, a risk that will face significant financial or operational problems because of local opposition. The tool applies a new approach to analyzing geospatial data about social, environmental and political issues to help companies and investors in emerging and frontier markets to prepare a proper assessment of tenure risk at project, supply chain or portfolio level.
- [Tackling Deforestation – Soft Commodities Report (Societe Generale, 2020)](): ***Report*** that provides an overview of Societe Generale's impact on deforestation through its activities and the efficiency of measures already implemented for tackling deforestation to identify how to improve the Environmental and Social risk management framework associated to soft commodities.
- [Agriculture in the Age of Climate Transitions (Orbitas, 2021)](): ***Report*** that outlines the risks and opportunities associated with the climate transition for the tropical agriculture sector.

Section 3: Financial lens

- [Deforestation reduced rainfall and agricultural revenues in the Brazilian Amazon (Leite-Filho et al., 2021)](): ***Scientific publication*** that assesses the relationship between historical deforestation and rainfall at different geographical scales across the Southern Brazilian Amazon and, the impacts of deforestation policy scenarios on the region's agriculture. Forest loss of up 55-60% within 28km grid enhances rainfall, but further deforestation reduces rainfall rapidly.
- [Managing Palm Oil Risks – A Brief for Financiers (van Gelder et al., 2017)](): ***Report*** that provides an overview of the risks in the unsustainable palm oil sector for companies and financiers, the benefits of investing in sustainable palm oil and provides practical recommendations for banks intending to address the risks of their exposure to unsustainable palm oil.