

# Making sustainable finance work for halting deforestation

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# Introduction



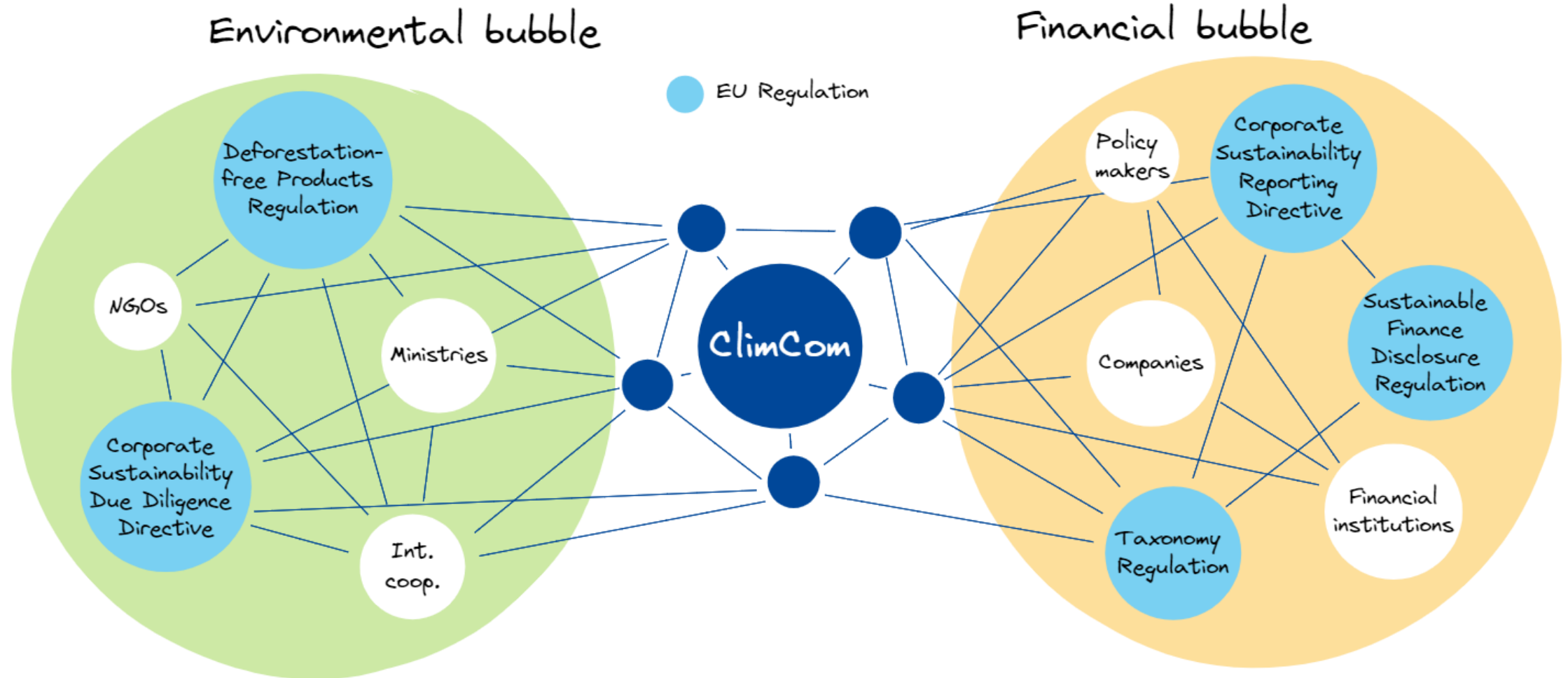
Sustainable Finance Think Tank

IF WE ARE SERIOUS ABOUT SUSTAINABLE  
DEVELOPMENT, WE NEED TO GET THE  
FINANCING RIGHT.

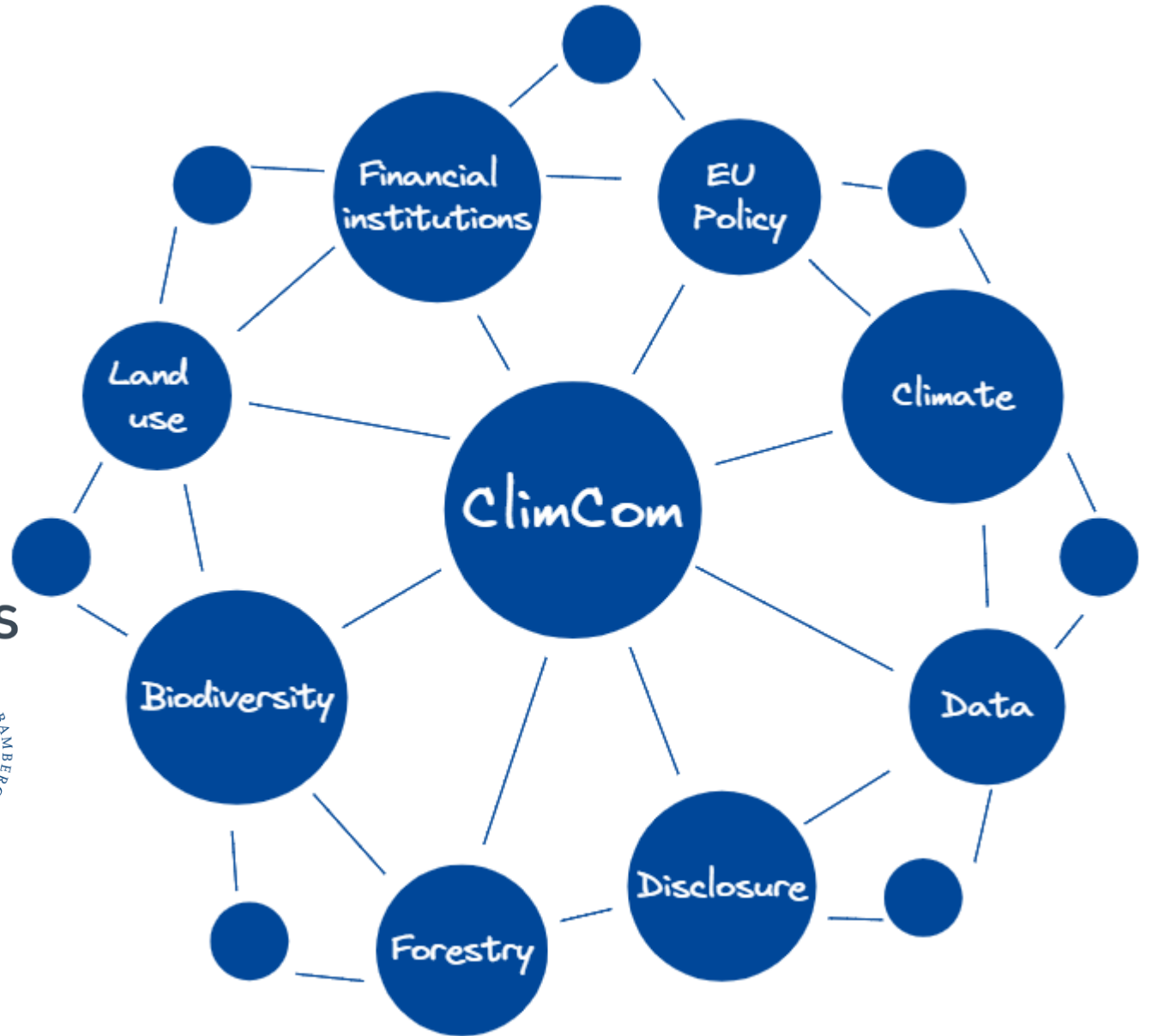


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# We build bridges

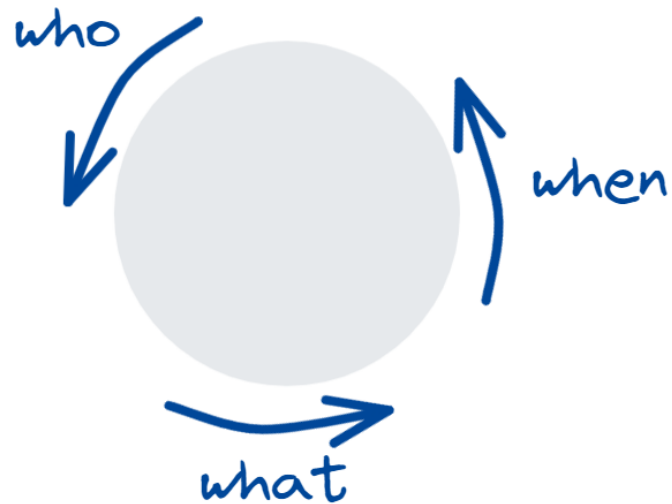


# Why we are good at building bridges...



# How we work - our methodological approach

Targeted information, analysis,  
dialogue



Network - bridging expert  
knowledge between the  
environment and the finance camp



## Problem definition

- **Deforestation is a major driver** of climate change and biodiversity destruction, and hence, ultimately, a threat to human survival.
- **Deforestation is linked to economic activity** through various channels: Financial and non-financial corporates (large and small) are responsible for, at (financial) risk from and have the power to halt deforestation
- **Links between deforestation and economic activity often difficult to capture:** from an EU or US (or more generally, an OECD country) perspective, the bulk of it happens upstream, (hidden) in the value chain

# Our vision and our contribution

Making sustainable finance work for halting deforestation

Ambitious and coherent regulation

+

Access to data

=

Key stakeholders take action

## Impact

With the help of an ambitious and coherent policy framework and access to relevant data, financial and non-financial corporates take action on divestment, engagement, sustainable procurement/purchase policies & impact investment for halting deforestation

## Outcome/Objectives

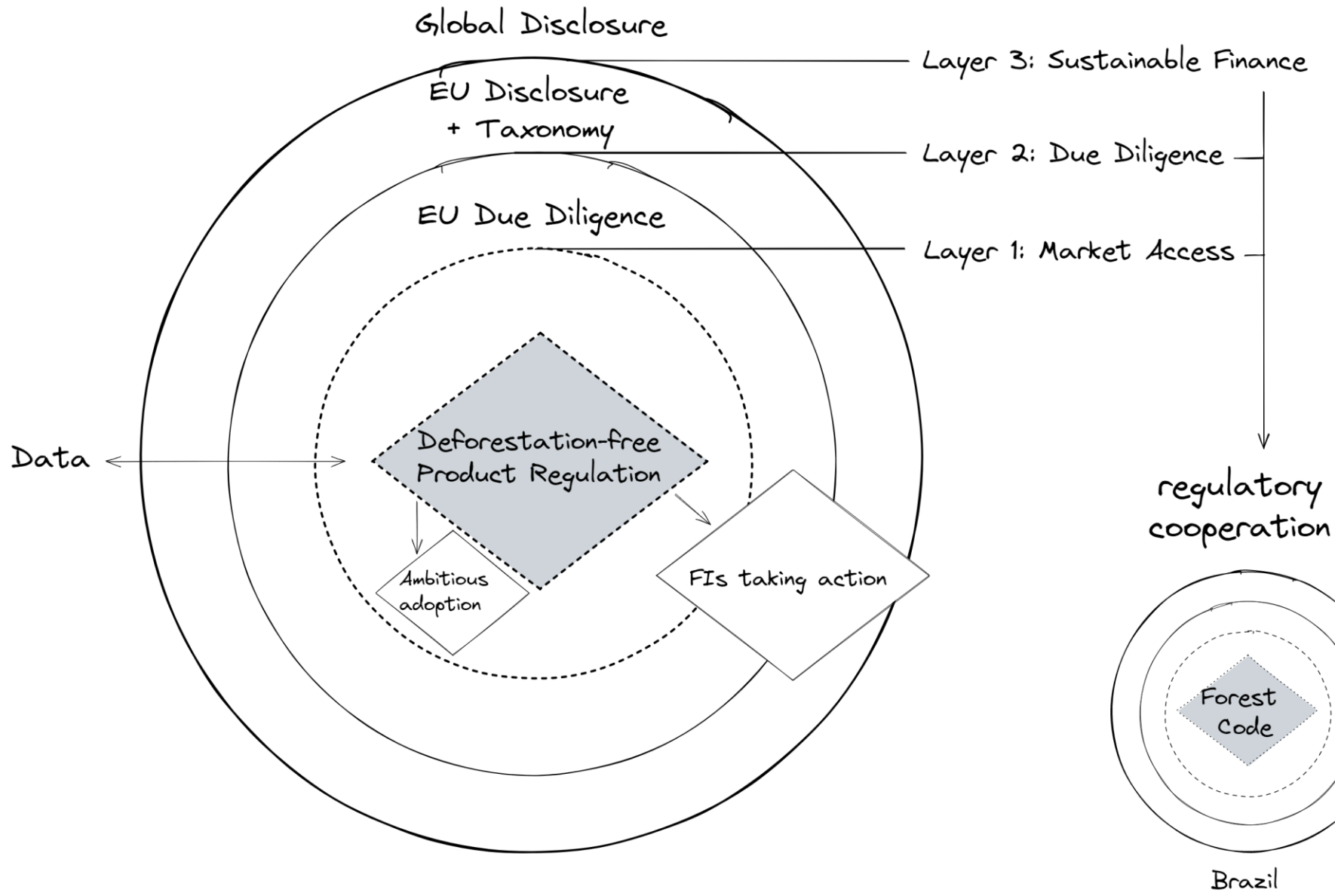
Ambition and coherence gaps in the EU and its supply chains are closed through:

- 1. Make deforestation visible**
- 2. Get strong incentives in place for financial and non-financial corporates**
- 3. Improve data access of financial decision makers**



# Policies and Regulation

# Complementarity across policy instruments



## The three policy layers: different levels of impacts and risks underline importance of a complementary approach using all instruments

|                 |   | Market access   | Due Diligence  | Disclosure/<br>Transparency  |
|-----------------|---|---|--|--|
| Policy context: |   | Effective implementation guidance for Deforestation Regulation until 2024 | Ambitious adoption of EU due diligence directive in 2023 | Ambitious topical, sector and simplified ESRs Delegated Acts until 2023/2024 |
| "Impact"        | Deforestation-specific:   | +++   | ++   | +  |
|                 | Strength of legal instrument:                                       | +++   | ++   | +  |
|                 | Potential for agreement & support across society & political camps: | +   | ++   | +++  |
| "Risks"         | Position of affected target groups:                                 | ---   | --   | -  |

## Why are these policies important?

- **EU-Regulations... generate direct impact:** Improve deforestation impacts related to “the biggest economy”
- **EU-Regulations... improve data availability:** Deforestation related disclosures, due diligence and market access regulation directly and indirectly improve data availability [ex: geolocation under the deforestation-free products regulation!]
- **EU-Regulations... increase international ambition:** Send a strong signal to G20, ISSB, CBD and directly to partner countries that Europe walks the walk and provides an ambitious benchmark

# Data and Financial Institutions

# Insights from existing practices on deforestation and finance (Europe)

- Focus on high-level commitments
- Deforestation policy still under development or in draft version
- Implementation just starting (if at all): compared to managing climate risks
- Use deforestation data when directly linked to companies, e.g. Forest500
- Focus on engagement (hardly any exclusion strategy)



## Main causes or "why?"

Financial institutions **struggle with data**:  
tools and data providers are known, but hardly  
directly used in the investment decision processes.



- **Knowledge**: lack of staff with expertise ("*The Battle for Talent*")
- **Risk perception** : deforestation is one dimension of risk (dedicated time)

Problem is made worse by:

- Only 611 companies (3 % of sample) in 2021 had a no deforestation policy (of which 40% are of very poor quality)
- Company data collection and disclosure on deforestation remains nascent

# Key data challenges for EU financial institutions

Most pressing issues for financial institutions:

- Lack of consistently available and comparable company-level data
- Lack of consistent forward-looking metrics:  
quality of deforestation policies – targets and transition plans
- Accessibility of decision-useful deforestation-related data

**Data accessibility** is in our view the major barrier:

Data is scattered throughout public and private domains with varying levels of access.





# Key data challenges for Brazilian financial institutions

Preliminary results:

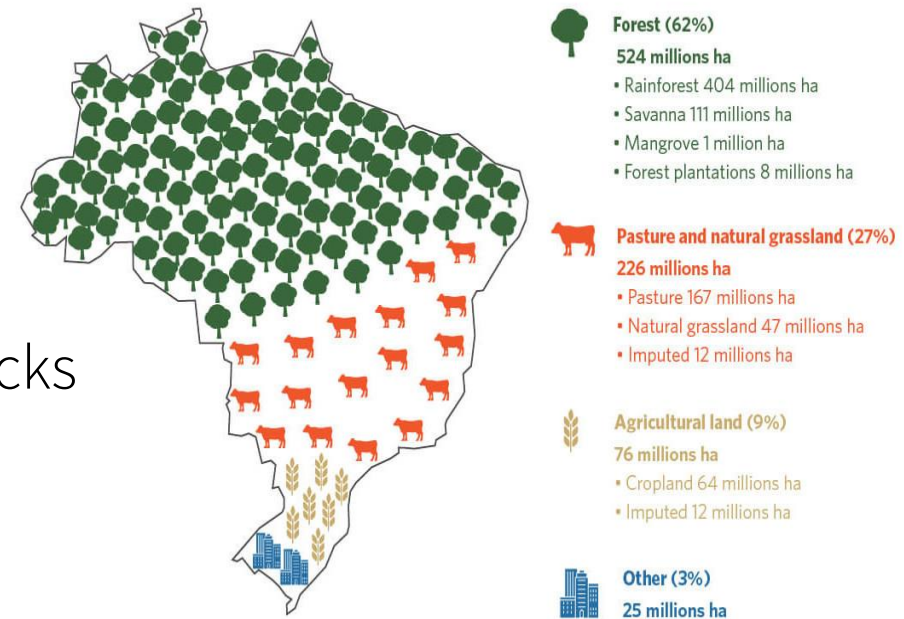
Mandatory **Rural Credit System** puts credible checks on agricultural development and deforestation

But some limitations:

- Restricted to Amazon biome
- Many missing data entries in the Rural Environmental Registry (CAR)

Biggest (data) challenge:

- Two thirds of deforestation-related activities is not financed through capital market
- Illegal deforestation



## Status quo & current gaps (on-going output 4.3)

Challenges impeding transparency and data accessibility including:

- Different definitions of "deforestation" by jurisdictional authorities
- Differing disclosure guidance
- Less effective development of deforestation strategies

But biggest challenge:

Different **risk perception** (lack of time dedicated to deforestation analysis) and **knowledge** for in-depth understanding of deforestation, land-use change and available data providers.



## Biodiversity data vs. company data

- While global georeferenced/spatial biodiversity datasets (e.g., data on ecosystem intactness in area XYZ) are still not perfect in terms of spatial granularity or update cycles, there is SO MUCH out there.
- The WWF, for example, has already conceptualized ~30 indicators ranging from water availability to ecosystem intactness (with more to come).
- The problem rather lies on firm-specific data. Assessing information where companies are doing what is clearly more challenging.

## Recommendations for data and tool providers and academia

- **Expand asset-level datasets:** Gather and offer asset-level data on additional industry sectors of biodiversity importance (e.g., agriculture).
- **Increase supply chain transparency:** Increase the level of transparency and trackability of upstream and downstream supply chains by developing tools and certifications.
- **Leverage existing frameworks:** Extend your offering and integrate biodiversity into your sustainability datasets. Make use of this and similar frameworks to ensure consistency.
- **Develop biodiversity scenarios:** Develop quantitative regional and global biodiversity scenarios to indicate how the integrity of biodiversity and ecosystems might change over time and how that might impact company performance.

# Thank you

## Contact us!

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# CLASSIFYING SUSTAINABLE INVESTMENT: USING TAXONOMIES TO SHIFT THE TRILLIONS TO GREEN ACTIVITIES

| Jurisdictions | Process maturity   |  |   |  |
|---------------|--|--|---|--|
|               |  Initiation phase       |  Developing phase |  Adopted                       |  Paused |
| G20           | Argentina<br>Australia*<br>Turkey  | India<br>Indonesia<br>Mexico<br>United Kingdom   | Brazil*<br>China<br>European Union<br>(including France, Germany, Italy)<br>Russia<br>South Africa<br>South Korea | Canada   |
| Others        | Chile<br>Dominican Republic<br>Georgia<br>Hong Kong SAR<br>Kazakhstan<br>Peru<br>Philippines<br>Thailand | ASEAN<br>Bangladesh<br>Singapore   | Colombia<br>Malaysia<br>Mongolia<br>Sri Lanka   |  |

OUT OF THE 29  
SUSTAINABLE FINANCE  
TAXONOMIES,  
**ONLY 12**  
CONSIDER NATURE-  
RELEVANT ASPECTS



EU IS THE ONLY  
JURISDICTION TO  
CONSIDER **SUPPLY**  
**CHAIN** IN ITS  
TAXONOMY – TO A  
LIMITED EXTENT