THE ENGINE ROOM

Regnskogfondet
RAINFOREST FOUNDATION NORWAY

Civil society data on rainforests and socially responsible investment

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Introduction

Investment using “socially responsible,” “ethical” or “values-based” approaches is growing. Increasing numbers of funds now assess companies using metrics related to environmental, social and governance (ESG) performance, while individual and institutional investors continue to invest greater sums in these funds.

In response, companies are attempting to present themselves as responsible, ethical actors. Some investors are seeking to encourage and deepen this trend by directly engaging companies to improve their practices.

In the case of rainforests, the focus of this report, this has brought some concrete gains. Companies have made public commitments to avoid sourcing or using products involved in deforestation, while investors have taken actions ranging from shareholder resolutions to public divestment from companies implicated in illegal logging, unsustainable palm oil cultivation or human rights violations.

However, there is much more to be done. To accurately assess companies’ actions in relation to rainforests and engage with them effectively, investors need accurate, relevant and up-to-date information. Here, information from civil society organisations working in rainforest areas should play a key role. Companies’ statements and official reporting may exclude key data that is relevant to investors, while global initiatives designed to certify and monitor companies’ performance may miss (or fail to censure) specific incidents of malpractice.

About this report

This report aims to identify opportunities for campaigners and civil society organisations (CSOs) aiming to protect rainforests and the rights of local communities, so that they can contribute more effectively to the data that investors use. To do so, Rainforest Foundation Norway (RFN) partnered with The Engine Room to assess how socially responsible investors and related institutions collect, analyse and use data in their decision-making.

With better knowledge of what information investors draw upon when making decisions, organisations and activists could tailor their communication to help investors make more accurate decisions about companies' practices. This, in turn, could influence more companies to improve their practices, helping to protect environments and the communities who depend on them.

Overview of SRI and rainforest issues

Socially responsible investment and forests

Investors who follow a socially responsible investment approach invest only in companies that they believe to be acting in a sustainable, ethical way.

Socially responsible investment is also known by a variety of similar terms, including "impact investing," "environmental, social and governance (ESG)," "ethical investing," "mission-related investing" "impact investing" or "values-based investing." Some argue that many of these terms are fundamentally interchangeable[1], and for the purposes of this report, the term 'socially responsible investment' will be used as an umbrella term for a variety of these approaches.

Socially responsible investors adopt a number of approaches, ranging from avoiding investment in companies involved in deforestation or tobacco production, to

1 Domini A, 'Thoughts on Meaning and Mission: ESG, CSR and SRI' (Green Money Journal) <http://www.greenmoneyjournal.com/october-2016/thoughts-on-meaning-and-mission-esg-csr-and-sri/>

prioritising investment in companies that adopt positive practices such as rainforest protection or “clean” energy production.

In all cases, socially responsible investors start from the proposition that a company that respects the environment and the people whose work it affects is more likely to increase its value over time. This viewpoint is steadily gaining more mainstream support. For example, a February 2015 study by the Morgan Stanley Institute for Sustainable Investing found that 72 per cent of individual investors believed that companies with good ESG practices were more likely to be profitable.[2] Increasing amounts of evidence are emerging to support this, with studies suggesting that funds with a socially responsible investing approach often outperform more traditional funds.[3]

The approach is also becoming increasingly popular among both North American and European investors. According to the Forum for Sustainable and Responsible Investing, the number of ESG mutual funds in the US increased from 333 to 456 from 2012 to 2014, while the assets represented in these funds doubled to $1.93 trillion in the same period.[4] There have been similar trends among European investors.[5]

A range of other recent surveys have reported that investors are paying increasing attention to questions about companies’ performance on metrics related to

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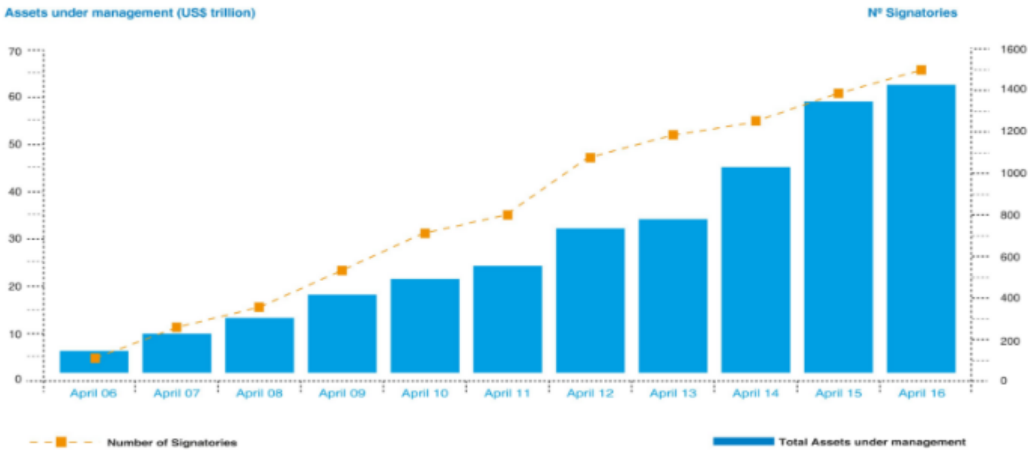
2 Morgan Stanley Institute for Sustainable Investing, ‘Sustainable Signals: The Individual Investor Perspective’ (2015) <https://www.morganstanley.com/sustainableinvesting/pdf/Sustainable_Signals.pdf>; RBC Global Asset Management, ‘Does Socially Responsible Investing Hurt Investment Returns?’ <http://funds.rbcgam.com/_assets-custom/pdf/RBC-GAM-does-SRI-hurt-investment-returns.pdf>. See also ‘Sustainable Investing in Emerging Markets’ (London, 25 October 2016) <https://live.ft.com/Events/2016/Sustainable-Investing-in-Emerging-Markets>

3 See, for example: Bank of America Merrill Lynch, ‘ESG: good companies can make good stocks (December 18, 2016), <https://www.bofaml.com/content/dam/boamlimages/documents/articles/ID17_0028/equitystrategyfocuspoint_esg.pdf>;

4 Friedman S, ‘Accounting for Natural Capital on Financial Exchanges’ (*Mongabay*, 26 January 2015) <https://news.mongabay.com/2015/01/accounting-for-natural-capital-on-financial-exchanges/>

5 Eurosif, ‘European SRI Study 2014’ (2014) <http://www.eurosif.org/wp-content/uploads/2014/09/Eurosif-SRI-Study-20142.pdf>

environmental, social and governance questions.[6] This includes mounting concerns among investors about the effects of deforestation, particularly in relation to the supply chain of palm oil, a commodity present in many food and cosmetic products.[7] There has also been a consistent increase in the number of companies that have signed the UN Principles for Responsible Investment (PRI). At the time of writing, more than 1,600 companies, managing a total of more than USD 60 trillion, have signed the Principles. Separately, in some countries, banks are developing voluntary standards for ESG reporting such as Colombia's Protocolo Verde, and Paraguay's Mesa de Finanzas Sostenibles.



The graph above was generated from the data available in this Excel spreadsheet, updated annually in April. No further AUM breakdowns by asset class, country, region or signatory category is available.

6 McKinsey, March 2017, 'When Sustainability Becomes a Factor in Valuation' <http://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/when-sustainability-becomes-a-factor-in-valuation?cid=other-eml-alt-mip-mck-oth-1703>; ERM, 'Responsible Investment: Delivering Value from ESG for Private Equity Firms' (2015) <http://www.erm.com/globalassets/documents/presentations/2015/responsible-investment-forum-brochure.pdf>

7 Forest 500, 'Investors 2015 Results' (2015) <http://forest500.org/sites/default/files/investors-2.pdf>

Socially responsible investment and forests

Socially responsible investors often take an active interest in forests for several reasons: because of a desire to source commodities in a way that respects individuals' rights; to protect forest environments; and to mitigate climate change.

Interest in socially responsible investment in forestry-related issues is growing. In 2016, the Carbon Disclosure Project identified a 20% increase in the number of investors asking companies to disclose how they are managing deforestation risks.[8] Separately, in November 2016, Ceres and PRI formed a joint investor group to support these investors in pressuring companies to help tackle deforestation.[9]

In some cases, this interest appears to be having an impact. Companies that have been directly linked to deforestation (such as palm oil growers) have increasingly begun making commitments to strengthen their sustainability in response to demand from traders and suppliers. According to the Supply Change project, as of March 2016, 366 companies had made 579 such pledges, while the New York Declaration on Forests reported that between 2015 and 2016, the number of commitments made had increased by 43%.[10] There has been an increase in the signing of "No Deforestation, No Peat, No Exploitation" pledges.[11] However, these commitments are not uniformly leading to improved actions on the ground: deforestation, forest degradation and rights abuses in forest areas are continuing in many countries worldwide.

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[8] CDP, 'Revenue at Risk: Why Addressing Deforestation Is Critical to Business Success' (2016) <https://www.cdp.net/en/research/global-reports/global-forests-report-2016>

[9] 'Ceres and the PRI Join Forces to Tackle Tropical Deforestation' (*UNPRI*, 11 November 2016) <https://www.unpri.org/page/ceres-and-the-pri-join-forces-to-tackle-tropical-deforestation>

[10] Supply Change, 'Tracking Corporate Commitments to Deforestation-free Supply Chains, 2016,' (March 2016) <http://www.forest-trends.org/documents/files/doc_5248.pdf>; New York Declaration on Forests, 'Goal 2 Assessment Report' (November 2016) <http://forestdeclaration.org/summary/>.

[11] [11] Chain Reaction Research, '2016 Sustainability Benchmark: Indonesian Palm Oil Growers' (*Chain Reaction Research*, 19 December 2016) <https://chainreactionresearch.com/reports/2016-sustainability-benchmark-indonesian-palm-oil-growers/>; 'Making No Deforestation Commitments Work' (*Aidenvironment*) <http://www.aidenvironment.org/news/successful-event-aidenvironment-making-no-deforestation-commitments-work/>.

In some cases, for example, governments have directly opposed some initiatives designed to introduce more rigorous standards to which companies should subscribe.[12] For example, the Roundtable on Sustainable Palm Oil (RSPO) has introduced a new complaints panel and a process for monitoring companies' compliance with sustainability standards in 2016, in response to pressure from some member organisations.[13] Overall, there is a consensus that commitments are necessary but not sufficient: they need to be enforced rigorously, and monitored using accurate and timely information from the areas in question.

Comparable research

As SRI considerations have become more mainstream, a relatively large body of research around SRI has emerged, much of it driven by investors, and focused on the practices of financial institutions in North America, Europe and Southeast Asia.

Studies have primarily looked at financial institutions' attitudes towards, and perceptions of SRI, and the extent to which ESG considerations have become a part of asset management.[14] For example, Ceres and Blackrock's 21st Century Engagement report consolidates and provides guidance on the strategies investors

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[12] Hance J, ' WWF and Greenpeace break with Indonesia's pulp and paper giant' (*The Guardian,* 16 December 2016) <https://www.theguardian.com/sustainable-business/2016/dec/16/wwf-greenpeace-april-indonesia-peat-forest-canal-pulp-paper-industry>; Taylor M, 'Big Palm Oil's Pledge to Preserve Forests Vexes Indonesia' (*Reuters*, 7 October 2015) <http://www.reuters.com/article/us-indonesia-forests-insight-idUSKCN0S02SX20151007>; 'Palm Oil: Global Brands Profiting from Child and Forced Labour' <https://www.amnesty.org/en/latest/news/2016/11/palm-oil-global-brands-profiting-from-child-and-forced-labour/>.

[13] Chow E, 'Palm Plantations Shaken by the Green Body They Helped Create' (*Reuters UK*, 7 June 2016) <http://uk.reuters.com/article/us-palmoil-sustainable-idUKKCN0YT0T3>.

[14] 'ESG Research' (*Novethic*) <http://www.novethic.com/esg-research.html>; Voorhes M and Hoque F, 'Unlocking ESG Integration' (US SIF 2015) <http://www.ussif.org/files/Publications/UnlockingESGIntegration.pdf>; EXTEL and UKSIF, 'SRI & Sustainability Survey 2016' <https://www.extelsurveys.com/Panel_Pages/PanelPagesBriefings.aspx?FileName=Extel_SRI_Report_2016>

can adopt to improve a company's ESG performance,[15] while the UN PRI's 2013 report identifies a series of ways that ESG considerations can improve the accuracy of company valuations.[16]

Much research has focused on describing trends, particularly the growing interest in SRI. For example, Oekom's annual reviews identify global trends in the sustainability performance of corporate management and investment.[17] Other studies by organisations such as ShareAction and Chain Reaction Research have examined how SRI approaches affect the value and performance of specific companies.[18]

Some research, particularly by civil society organisations, takes a more advocacy-based approach to SRI issues; identifying harmful practices, areas for improvement, and recommendations for both financial institutions and companies. For example, the World Wildlife Fund and Environmental Investigation Agency have published a number of reports on related issues, with a particular focus on the palm oil industry.[19] Similarly, Greenpeace's Company Scorecard evaluates the "no deforestation" policies of 14 global consumer brands.[20]

However, there is limited publicly available information on SRI investors' perception of data collected by civil society organisations, and the extent to which such data influences their decision-making. In 2012, Vasi and King looked at how

[15] Blackrock and Ceres, '21st Century Engagement: Investor Strategies for Incorporating ESG Considerations' (2015) <https://www.blackrock.com/corporate/en-hu/literature/publication/blk-ceres-engagementguide2015.pdf>

[16] UNPRI, 'PRI Annual Report 2013' (2013) <https://www.unpri.org/download_report/4346>

[17] 'Oekom Studies' (*oekom research*) <http://www.oekom-research.com/index_en.php?content=studien>; EXTEL and UKSIF, 'SRI & Sustainability Survey 2016' <https://www.extelsurveys.com/Panel_Pages/PanelPagesBriefings.aspx?FileName=Extel_SRI_Report_2016>.

[18] 'Research & Policy' (*ShareAction*) <https://shareaction.org/research-policy/>; 'Reports' (*Chain Reaction Research*) <https://chainreactionresearch.com/reports/>

[19] 'Palm Oil Publications' (*WWF*) <http://wwf.panda.org/what_we_do/footprint/agriculture/palm_oil/publications/>; EIA and Grassroots, 'Who Watches the Watchmen?' (2015) <https://eia-international.org/wp-content/uploads/EIA-Who-Watches-the-Watchmen-FINAL.pdf>

[20] Greenpeace, 'Cutting Deforestation out of the Palm Oil Supply Chain: Company Scorecard' (2016) <http://www.greenpeace.org/international/Global/international/publications/forests/2016/gp_IND_PalmScorecard_FINAL.pdf>

environmental activism affects a company's perceived environmental risk,[21] and in 2015 Eesley, DeCelles and Lenox produced a thorough review of the various tactics used by activists to target firms for social change.[22] Mongabay's series on the attitudes of palm oil investors towards company sustainability includes a useful review of how civil society organisations are attempting to reach palm oil financiers and companies.[23] This report aims to build on this research through asking two questions:

- Are investors using data from civil society organisations to make decisions, and if so, how?
- What makes information about rainforest-related activities useful for socially responsible investors?

Methodology

Between June 2014 and August 2015, the researchers conducted interviews with 30 professionals working with socially responsible investing, including representatives of civil society organisations, investor forums and multi-stakeholder initiatives.

Eight of those interviewed were fund managers, five represented pension funds, ten were information providers, five were civil society organisations and two were networks of various actors. Of these, 15 were based in North America, with seven in Scandinavia and eight in Europe. 21 of the individuals interviewed were responsible for making SRI decisions and recommendations at asset management firms, pension funds and SRI research providers.

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[21] Vasi I and King B, 'Social Movements, Risk Perceptions, and Economic Outcomes' (2012) 77 American sociological review 573.

[22] Eesley C, Decelles KA and Lenox M, 'Through the Mud or in the Boardroom: Examining Activist Types and Their Strategies in Targeting Firms for Social Change' (2016) 37 Strategic Management Journal 2425

[23] Shibao P, 'How Are NGOs Innovating to Reach Palm Oil Financiers and Companies?' (*Mongabay*, 4 February 2016) <https://news.mongabay.com/2016/02/how-are-ngos-innovating-to-reach-palm-oil-financiers-and-companies/>

Interviews aimed to discover the types of information that investors found most relevant and useful in SRI decision-making on rainforest issues. Despite the time that has elapsed between the interviews and the writing of this report, many of the interviewees described established methodologies that are likely to have remained relatively consistent. Research was conducted according to the Chatham House Rule, with no information regarding business practices being shared without prior consent of participating organisations.

Findings

Motivations for SRI in the investment community

Interviewees generally said that they favoured socially responsible investment approaches because they brought at least one of the following benefits:

- **An ability to meet demands from individuals seeking to invest in a socially responsible way**: In some cases, investors cited their focus on socially responsible investment principles as a factor differentiating them from competitors, emphasising the quality of their analysis and variety of information sources utilised.[24]

- **Better analytical capacity to anticipate short-term risks:** The desire to gain a more accurate, nuanced understanding of a company's value by understanding risks that could affect it, such as reputational or legal risks.[25] Notably, some interviewees described particular (and growing) demand for critical analysis highlighting how a company's practices could lead to a decrease in its value.

- **Greater capacity to identify reliable medium-term investments**: The belief that a sustainable company is likely to be a more valuable long-term investment if its practices are sustainable.[26] This viewpoint was regularly

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[24] Williams A, 'Ethical Funds Failing Social Responsibility Tests' *Financial Times* (31 October 2016) <https://www.ft.com/content/a6130172-9c2b-11e6-8324-be63473ce146>; "Money managers increasingly are incorporating ESG factors into their investment analysis and portfolio construction, driven by the demand for ESG investing products from institutional and individual investors." US SIF, 'US Sustainable, Responsible and Impact Investing Trends 2014' (2014) <http://www.ussif.org/Files/Publications/SIF_Trends_14.F.ES.pdf>.

[25] Amaral L, 'A New Tool to Help Banks Tackle Deforestation and Environmental Risks' (*Negocios Sostenibles*, 5 April 2017) <http://blog.iic.org/2017/04/05/banks-and-deforestation/>.

[26] Stampe J and McCarron B, 'WWF Sustainable Finance Report 2015' (2015) <https://d2ouvy59p0dg6k.cloudfront.net/downloads/wwf_frc_forest_risk_commodities_report_2015_online.pdf>

stated by interviewees for this research, while a series of research papers have produced evidence to support the claim.[27]

- **Maintaining pressure on companies to act responsibly:** The idea that companies engaged in malpractice or failing to meet recognised standards are most likely to improve as a result of continuous, proactive engagement - thereby maintaining the value of an existing investment.[28]

Notably, several interviewees that provided information on SRI risks to investors said that they were experiencing increasing interest from types of actors that were new to them, particularly multinational companies seeking to gain a more in-depth understanding of the practices of companies in their supply chain.

Approaches to socially responsible investment

The most widespread approaches to socially responsible investment are listed below: most investors interviewed for this report adopted one or more of these.

- **Negative screening:** Eliminating companies that do not fit with an investor's criteria *before* deciding whether to invest in them. In many cases, such criteria are defined by investors, but some interviewees also described using absolute standards such as the Carbon Disclosure Leadership Index. Even after a company was selected for investment, investors typically screened them continuously to check that they continued to conform to the same standards.

- **Positive screening:** Investing in companies that the investor's analysis suggest perform better than others in a particular country or sector (also

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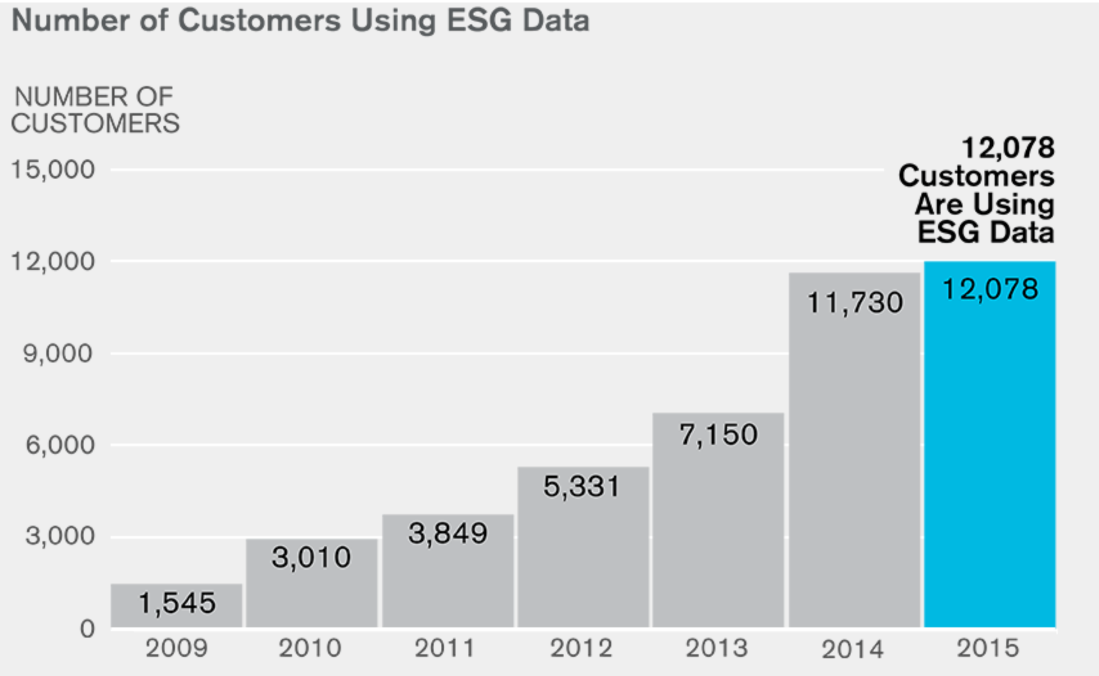
[27] Kotsantonis S, Pinney C and Serafeim G, 'ESG Integration in Investment Management: Myths and Realities' in Journal of Applied Corporate Finance, 28, 2 (2016) <http://www.highmeadowsinstitute.org/wp-content/uploads/2014/05/JACF-ESG-Integration-Myths-and-Realities.pdf>; Clark GL, Feiner A and Viehs M, 'From the Stockholder to the Stakeholder: How Sustainability Can Drive Financial Outperformance' (2015) <https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2508281>.

[28] 'Study: 81% of Consumers Say They Will Make Personal Sacrifices to Address Social, Environmental Issues' (*Sustainable Brands in Focus*, 27 May 2015) <http://www.sustainablebrands.com/news_and_views/stakeholder_trends_insights/sustainable_brands/study_81_consumers_say_they_will_make_>

known as a “best in class” approach). For example, an investor could invest only in companies most actively removing unsustainable palm oil from their supply chain, or those adhere to human rights standards for private companies by multinational organisations like the UN and OECD.[29]

- **Engagement:** Identifying companies that are not meeting predetermined standards for socially responsible business practices, and attempting to convince them to improve those practices. This can take place in a number of ways, ranging from private face-to-face meetings to direct participation in shareholder meetings.

- **ESG integration:** Building assessments of risks related to socially responsible corporate behaviour into traditional financial analysis, typically involving a stage as part of a systematic investment decision-making process.



Caption: Bloomberg customers using ESG data provided by the platform[30]

[29] For example, the UN Guiding Principles on Business and Human Rights (OHCHR 2011) <https://business-humanrights.org/en/un-guiding-principles>; the UN Global Compact <https://www.unglobalcompact.org/>; and the OECD Guidelines for Multinational Enterprises (OECD 2011) <http://www.oecd.org/daf/inv/mne/oecdguidelinesformultinationalenterprises.htm>

[30] https://www.bloomberg.com/bcause/customers-using-esg-data

Processes for information collection and analysis

Interviewees described using a wide range of indicators and measurements in their analysis. Notably, there appeared to be no uniform, comparable set of measurements that are used across the sector. Interviewees also noted a lack of transparency in certain parts of the process, with investors typically opting not to disclose their sources or details of their analytical methods because of commercial sensitivities.[31]

That said, most interviewees described a similar set of broad, overarching processes for collecting and processing information to use in decision-making. In broad terms, the process starts with a general scan for problematic issues related to a particular company or a given area. This scan is typically conducted by the investor itself, a company dedicated to providing information to investors, or a combination of the two.

This high-level scan is then used to identify a smaller subset of potential issues for further investigation. This investigation can take many forms, ranging from more detailed desk research to in-person contact with the implicated company or civil society organisations based in that area. In all cases, it is focused on developing information that investors can act upon, whether by recommending changes to a company's policies when the investor engages with them, or in determining decisions about how an investor manages their portfolio.

Figure 1 sets out the broad outlines of how an assessment process might work in cases where an investor is considering investing in a company, or is already doing so.

Based on the information and analysis collected, investors will typically decide whether the identified issue is sufficiently serious to warrant further action. If so, many investors will directly engage the company to gain more information and assess how they respond to questions about their practices.

Following this assessment stage, investors typically take one of the following actions:

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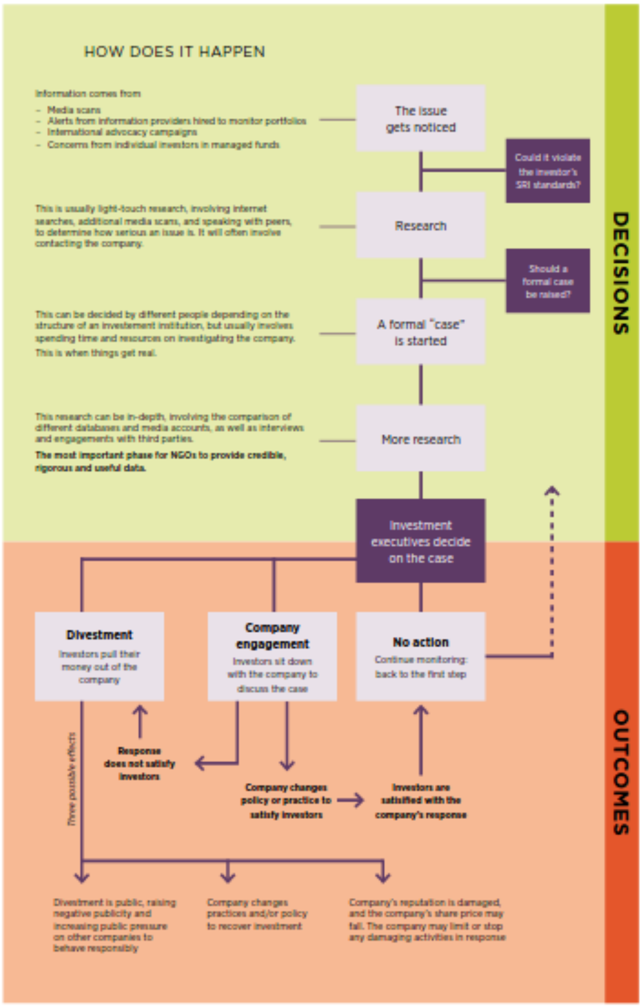
[31] Chan A et al, 'Navigating Environmental, Social & Governance Data for Foundations', (2014) <http://sustainability.ei.columbia.edu/files/2014/07/Navigating-ESG-Data-for-Foundations_FINAL.pdf>

Figure 1



- **Dropping the case** after determining that the issue has been addressed, that it cannot be objectively verified, or that it is not serious enough to require further action from the investor.

- **Adjusting their portfolio**, typically by reducing their investment in the company in question. In cases where investors are particular concerned or dissatisfied with a company, this could involve excluding them from their portfolio entirely ("divestment"). Approaches differed significantly here, with some publicly communicating divestments and others preferring to do so privately.

- **Further engagement**, involving more intensive interaction with the company to encourage it to improve its policies and implementation.

The following section provides more detail on these approaches.

ENGAGEMENT

Many socially responsible investors that aim to influence companies to act more responsibly see direct engagement with a company as the approach most likely to bring about results. Some investors regard engagement as one of their functions, if not duties.[32] Engagement can take many forms, involving civil society data to varying extents.

Direct communication

Investors may try to persuade a company to improve its policies around sustainable investment by engaging the company directly, using tactics such as letters and organising meetings. As one investor put it, engagement can range from "light engagement" - short, direct conversations with companies - to "heavy engagement" - in-depth exchanges with a company's management or board.[33]

Because this kind of direct engagement is private, there is limited information available about its characteristics and the role that CSO information plays. Nevertheless, it is a potential avenue through which CSO data can trigger discussions, and inform them during the process.

In December 2013, Wilmar - the world's largest palm oil trader - adopted a pledge to eliminate deforestation from its supply chain. The pledge came after months of discussions between The Forest Trust (TFT), Unilever and Climate Advisers, among others.

Collaborative engagement

Engagement often takes place collectively, with shareholders and investors applying pressure as a group. Here, the aim is to bring together more capital, giving a

32 Larry Fink, "The Value of Our Voice" in Blackrock and Ceres, '21st Century Engagement: Investor Strategies for Incorporating ESG Considerations' (2015) <https://www.blackrock.com/corporate/en-hu/literature/publication/blk-ceres-engagementguide2015.pdf>

33 Donna Anderson, "A Spectrum of Engagement Intensity" in Blackrock and Ceres, Ibid.

particular effort more weight than if it came from the same groups working separately.[34]

This can be done through, for example, collective letter-writing or participation in forums such as the Roundtable on Sustainable Palm Oil (RSPO). Civil society organisations can play an important role here, by bringing an issue to the attention of investors and encouraging them to act on it. This capacity was strengthened further in mid-2016, when CSOs were given the ability to file formal complaints to the RSPO.[35]

In 2010 and in 2015 CSOs filed a formal complaint with the RSPO against the palm oil supplier IOI Group. They detailed evidence that IOI was failing to comply with RSPO's procedures and standards. In response, the RSPO suspended IOI's membership in April 2016. Companies including Unilever, Mars and Kellogg then dropped IOI as a supplier. Even after the RSPO reinstated IOI, numerous investors have refused to reinstate IOI's contracts until it can demonstrate tangible improvements in its practices. According to Chain Reaction Research, IOI recorded a USD 14.8 million net loss in Q2 2016, compared with a USD 30 million profit during the same quarter in 2015.

CSOs may also have the opportunity to collaborate with investors directly. For example, since July 2010, Boston Common Asset Management has held meetings on shale gas practices, including offshore oil safety and human rights, corruption and compliance. These meetings include joint discussions with CSOs that Boston Common hopes will "bridge the fact gap of the industry and NGO activists fighting

34 Meredith Miller, 'Effective Collaboration,' in Blackrock and Ceres, Ibid.

35 Chain Reaction Research, 'IOI Corporation: RSPO Suspension?' (2016) <https://chainreactionresearch.files.wordpress.com/2016/02/crr-ioi-suspension-analysis-final-1.pdf>; Milieudefensie and Friends of the Earth Europe, 'Too Green to Be True' (2010) <https://www.foeeurope.org/sites/default/files/publications/foee_too_green_to_be_true_0310.pdf>; Terazono E, 'Palm Oil Battle Spreads beyond Ethical Investors' Financial Times (26 May 2016) <https://www.ft.com/content/d9c87b0e-229c-11e6-aa98-db1e01fabc0c>; Chain Reaction Research, 'The Chain: IOI Corporation Commits To Improving Its Supply Chain Risk Management' (Chain Reaction Research, 22 May 2017).

fracking in the US."[36] Some international organisations include these kinds of activities as a core component of their work: WWF's International Finance Programme engages directly with financial institutions to provide insights and data on environmental and social risk and fulfil critical research gaps.[37]

Shareholder activism

Some investors are "active owners", meaning that they use their position as a shareholder to actively engage with companies on ESG issues. This is usually done by introducing proposals or resolutions at shareholder meetings. CSO campaigns or reports can be the trigger for this kind of engagement, or the CSOs may themselves be the activist shareholder. ShareAction, for example, organises individual volunteers to attend AGMs and question company boards.[38]

A study on the effects of shareholder activism found that, when an investor engaged successfully, the target company's performance, profitability, efficiency and governance improved. Unsuccessful attempts at engagement had no clear negative effects on the company's profitability or performance.[39]

Separate research by Vasi and King argues that shareholder activism (or "primary stakeholder activism") is more effective at altering the perceptions of a company's environmental risk than activism by non-shareholders. This perception of environmental risk in turn negatively affects the company's financial performance. They suggest that risk managers "give more weight to information revealed through primary stakeholder activism, because shareholders' interests are less likely to be perceived as in conflict with the firm's economic interests."[40]

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[36] Heim S, 'Tackling Fracking: Collaboration with Company Experts Brings New Understanding to Risks,' in Blackrock and Ceres, '21st Century Engagement: Investor Strategies for Incorporating ESG Considerations' (2015) <https://www.blackrock.com/corporate/en-hu/literature/publication/blk-ceres-engagementguide2015.pdf>

[37] 'International Finance' (*WWF*) <http://www.worldwildlife.org/industries/international-finance>

[38] ShareAction, 'Mission: AGM Activism' (2016) <https://shareaction.org/wp-content/uploads/2016/10/MissionAGMActivism.pdf>

[39] Dimson E, Karakaş O and Li X, 'Active Ownership' (2015) 28 The review of financial studies 3225

[40] Vasi I and King B, 'Social Movements, Risk Perceptions, and Economic Outcomes' (2012) 77 American sociological review 573

In February 2014, Kellogg followed the example of a string of companies before it and agreed to only buy palm oil from sustainable suppliers. The policy was a response to extended pressure from a number of environmental groups, as well as a shareholder resolution filed by Green Century Capital Management.

In May 2014, following pressure from CSOs, Deutsche Bank divested from Bumitama Agri - a key company in the supply chain of palm oil giant Wilmar - because of evidence that Bumitama was acting illegally in its processing of palm oil. Rettet den Regenwald had collected 87,900 signatures calling on Deutsche Bank to divest from Bumitama, and Friends of the Earth Europe presented participants with cases of land-grabbing by Bumitama at a Deutsche Bank shareholder meeting.

EXCLUSION

Excluding a company from an investor's portfolio altogether - also referred to as "divestment" - is another tactic used by SRI investors. Divestment was often described as a last resort by interviews, and some considered it to be less effective than engagement at tackling ESG issues. Nevertheless, others viewed it as part of a responsible investor's role, or as "the ultimate stick" with which to encourage a company to improve.[41] Investors will often only exclude a company if there is clear evidence of wrongdoing, or after repeated unsuccessful attempts at engagement. Investors may do so in response to CSO campaigns that have brought the issue to their attention; in some cases, CSO data may be used as part of the justification for exclusion.

Immediate exclusion

Dialogue may not be possible or the most appropriate instrument in all cases - for example, if a company is involved in producing or trading in products that are incompatible with the investors' identity or that of of its clients. In such cases,

[41] Blackrock and Ceres, '21st Century Engagement: Investor Strategies for Incorporating ESG Considerations' (2015) <https://www.blackrock.com/corporate/en-hu/literature/publication/blk-ceres-engagementguide2015.pdf>

investors can carry out “immediate exclusion.”[42] Some investors described doing so publicly, whereas others preferred to keep exclusions private.[43]

In April 2015, Norway’s Government Pension Fund - the world’s largest sovereign wealth fund - dropped 11 companies for their role in forest destruction, including six palm oil companies. CSOs were instrumental in exposing the wrongdoing of the palm oil companies, and their data was used by the Fund’s Council of Ethics to conduct activities such as mapping the land use of the companies.

A few months later, the Government of Norway banned public procurement that directly causes tropical deforestation. This will affect an estimated $60 billion in annual procurement.

Divestment after engagement

If a company repeatedly fails to address a serious issue, or appears to be unwilling to do so, then an investor may divest. Investors have different criteria for divestment: some, for example, base their criteria for divestment on the principles of the United Nations Global Compact, which relates to human rights, labor rights, the environment and corruption, while others use their own internal standards to make decisions.[44] [45]

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[42] Ibid.

[43] ‘Sovereign Wealth Fund Rankings’ (SWFI) <http://www.swfinstitute.org/sovereign-wealth-fund-rankings/>; The Council on Ethics for GPFG, ‘Recommendation’ (2015) <http://etikkradet.no/files/2015/08/Recommendation-Daewoo-270315.pdf>.

[44] Blackrock and Ceres, ‘21st Century Engagement: Investor Strategies for Incorporating ESG Considerations’ (2015) <https://www.blackrock.com/corporate/en-hu/literature/publication/blk-ceres-engagementguide2015.pdf>

[45] ‘Body Shop Decision Praised as It Cuts Ties with Colombian Palm Oil Supplier’ (Christian Aid, October 2010) <http://www.christianaid.org.uk/whatwedo/partnerfocus/body-shop-praise-for-cutting-ties-with-palm-olive-supplier.aspx>

In October 2010, The Body Shop cancelled its contract with Daabon - a Colombian group that supplied the palm oil for its soap products - after a subsidiary of Daabon failed to resolve a dispute with 123 farming families that had been evicted by riot police to make way for palm oil plantations. The issue was first brought to the attention of The Body Shop by Christian Aid, with whom The Body Shop agreed to co-finance an independent review into the case.

PUBLIC PRESSURE

In some situations, CSOs have needed to publicly campaign against a particular company to influence investors to take action. There is evidence to suggest that public pressure that increases the risk to a company's reputation, when combined with other approaches such as engagement, is often the most likely method of changing companies' actions.[46]

In April 2010, Nestle committed to dropping companies with "high-risk plantations or farms linked to deforestation" from its supply chain. The decision came in response to an extensive online campaign by Greenpeace, particularly a viral ad targeting KitKat chocolate. Greenpeace focused its criticism on Sinar Mas, one of Nestle's suppliers. HSBC and numerous other companies dropped their investments in Sinar Mas in the same year.

Trends

There was substantial variation in the approaches described by interviewees when making investment decisions on forest-related issues.

[46] Vasi I and King B, 'Social Movements, Risk Perceptions, and Economic Outcomes' (2012) American Sociological Review, Vol 77, 573.

PROCESSES

Many investors began their analysis with a set of negative screens updated with varying regularity, such as a biannual review of company-reported information reviewed in combination with internal research and reports from CSOs. However, others also described an incident-based approach that involved continuously monitoring media reports for reports of particular violations, and then conducting assessments on this basis.

PROVENANCE OF INFORMATION

Overall, interviewees described using a wide variety of information sources including company reporting, media outlets, CSOs, and third-party paid investigators, used in varying proportions.

Key themes in this discussion were:

The predominance of self-reported company data, with most interviewees citing this as both the type of information that they used most frequently, and that made up the highest proportion of their analysis.

The prominence of third-party information providers, whose rankings, alert systems or briefing services were used by most interviewees at some stage in their analysis process. This is supported by findings from surveys of investors: according to Novethic, specialised rating agencies are the main source of most European asset owners' information about ESG issues.[47]

The relatively limited use of on-the-ground specialist sources, whether third-party paid investigators or civil society organisations. A small number of investors described partnering directly with civil society organisations where they had expertise in a particular area, while a smaller said that they used third-party paid investigators to conduct more detailed research in cases where information was otherwise unavailable, while an even smaller number said that they had sent

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[47] Novethic, 'ESG Strategies of European Asset Owners: From Theory to Practice' (2013) <http://www.responsiblehousing.eu/en/upload/General_on_CSR/2013%20-%20Novethic%20-%20ESG%20strategies%20Europe%204.pdf>

researchers on field visits to assess the veracity of company reporting on a specific issue.

The key sources mentioned are listed below, with the most common information sources first.

- **Company-supplied information:** comprising companies' reported information about their financial performance, policies and activities. This includes annual reports that are released to shareholders or the public, as well as reporting on specific indicators as required by the Global Reporting Initiative and similar groups. This also includes information gained during direct engagement with companies, including more detailed data on performance and information about their policies and processes.

- Third-party information providers that aggregate or collect data that relates to sustainability or environmental risk. For example, providers such as RepRisk and Sustainalytics offer targeted scanning on particular issues based on media reports and other sources. Information is collected from a wide range of sources, including CSO data in some cases: for example, Sustainalytics has stated that it monitors key NGO sources on a monthly basis.[48]

  Investors often then reprocess the third-party analysis, or combine it with their in-house analysis. Some investors preferred to combine data purchased from third-party information providers with data that they had collected individually, while others relied primarily on rankings or information provided by one or more information providers. Interviewees said that they often used these services because it gave them access to a wider range of sources, or (in a small number of cases) on-the-ground information that was otherwise unavailable.

- **Media reports** accessed through third-party aggregation services, such as Factiva and Meltwater, which typically produce digests on a specific set of keywords, in multiple languages. To identify incidents before triggering a more in-depth investigation, many investment managers and information providers described using these services to search news media coverage for keywords

[48] SustainAbility, 'Rate the Raters Phase Five' (2013) <http://10458-presscdn-0-33.pagely.netdna-cdn.com/wp-content/uploads/2016/07/rt_r5_rater_response_sustainalytics_feb_2013.pdf>

(like "human rights" or "palm oil") that are connected with particular locations or linked to specific companies that they are researching.

- **Domain-specific information collected by an investor's in-house analysts** on particular sectors, areas or companies. Some investors will assign a particular analyst to cover a topic or sector, while others will use one analyst to cover a broader range of issues.

- **Company-specific, purchased information**. A number of private companies sell information about specific companies, analysis of financial trends and market opportunities.

- **Public administrative and environmental data.** Investors or information providers sometimes look for information such as procurement or land data that shows companies' relations with governments, or scientific and regulatory data that can tell them about the impacts of company activity.

- **Field research in which analysts visit the sites where companies are operating**, to view operations, speak to governments and company representatives, or to speak with local communities and organisations.

WHERE DOES DATA FROM CIVIL SOCIETY ORGANISATIONS FIT IN?

While many interviewees stated that they included information from civil society groups, they did so at varying points and to varying degrees.

When interviewees described civil society data as being useful, it was often because it helped them to 'flag' potential problematic issues for further investigation. This 'trigger' function appeared to be performed primarily by press releases that were republished in the media (and thus picked up by information providers). However, some interviewees cited cases where they had begun additional research in response to a report from a civil society organisation. This was most common among investors that conducted some degree of research internally (and was not referenced by those that relied more heavily on information providers.)

Larger investors tended to see rankings or scorecards as particularly useful, particularly among funds that incorporated multiple information sources or used regularly updated data**.** Several interviewees said that these scorecards were useful because they helped in efforts to 'benchmark' certain companies against others in the same sector. Examples of such scorecards mentioned included those produced by the Rainforest Action Network[49] and the World Wildlife Fund,[50] which assess companies on their efforts to implement sustainable policies.

Although most interviewees referred to civil society information in general terms, several investors referenced using information from international campaigns that focused on specific companies. As mentioned above, in these instances investors said that they tended to prefer information from well-known international CSOs such as Global Witness or Greenpeace - particularly those that could present a substantial risk to the reputation of the company.

Some investors said that they used **aggregated map data** from civil society-led projects like Global Forest Watch (which combines information about logging, forest fires and deforestation into a single online map).[51]

Notably, some interviewees exhibited increasing awareness of the complexities of gaining access to accurate information that reflects on-the-ground realities. This was reflected in efforts by investors and information providers to factor in **information from smaller, in-country organisations**, and in contracting specialist organisations with the capacity to conduct on-the-ground investigations. On the basis of the interviews, this appeared to be fairly rare, and typically only took place when investors had precise concerns about a specific region, sector or company. Notably, interviewees repeatedly recognised that this would be particularly necessary in areas where there is currently limited oversight.

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[49] 'The Snack Food 20 Scorecard' (*RAN*) <http://www.ran.org/sf20scorecard>

[50] WWF, 'Palm Oil Scorecard 2016' (2016) <https://www.worldwildlife.org/publications/palm-oil-scorecard-2016>

[51] 'Global Forest Watch' <http://www.globalforestwatch.org/>

Perspectives on information sources

INFORMATION SHORTAGES

The majority of interviewees said that they were always looking for more information, although some investors described feeling overwhelmed by the quantity of data available. While investors only rarely made explicit criticisms of the data at their disposal, others have suggested that “data on the real-world impact that companies exert is poor, incomplete, non-standardised, or inaccessible.”[52] At the time of the interviews, the types of information that were perceived as lacking fell into one of two general types: information on companies’ activities in relation to their supply chains, and information from a particular area that mapped onto particular commodities or products that a company is involved with.

INFORMATION SHARING BETWEEN INVESTORS

Overall, the interviews indicated a marked lack of sharing of information about specific instances of malpractice in the forest sector between different stakeholders. Many interviewees said that they talked informally with other investors, sharing information that was pertinent to socially responsible investment practices in general, or related to a broader area with common interests such as a commodity. In some cases, this was done through formal partnerships and group approaches, though many interviewees said that they also shared individual pieces of information with contacts. However, interviewees also added that the information shared was usually on high-level issues affecting a particular sector or trends in socially responsible investment, rather than information relating to a particular company’s activities (because that might affect the investor’s competitive advantage).

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[52] Odier P, ‘Why lack of data is the biggest hazard in ‘green investing’, 6 March 2017, *Financial Times,* <https://www.ft.com/content/be8e5db2-0249-11e7-aa5b-6bb07f5c8e12>

INFORMATION CREDIBILITY AND REPUTATION

Whether an SRI investor decides to use information, or how how decide to use that information, depends on how confident they are that the data is credible, reliable, objective and accurate. However, verifying information can be time-consuming and expensive. Investors therefore often appear to focus on collecting data from sources that they trust, and that have a strong, established reputation.

Overall, interviewees generally described wariness in relation to using information from CSOs, even among those who used it frequently. The interviewees raised the following points about how CSOs, and the information they produce in relation to SRI, are perceived:

Quality

Investors were aware that information from national-level civil society organisations are often designed to raise awareness among the public rather than influence international investors. Nevertheless, some interviewees suggested that this was also accompanied by a lack of precision that led them to doubt the reliability and accuracy of CSO data. In particular, interviewees cited the lack of a clear methodology and transparent indications of where and how data had been sourced from. Some even described occasions where CSOs' claims had been proven false on further investigation, and added that using information from those CSOs had hampered their efforts to engage with the company in question by damaging the effectiveness of their overall argument.

Bias

Interviewees acknowledged that because CSOs are engaged in advocacy, their advocacy reports did not need to be devoid of judgements. Still, they emphasised that it was difficult for investors to justify using data in their analysis that could be perceived as exhibiting a high level of bias. In some cases, they described having to defend CSO-sourced data during actively questioning from companies during the engagement process. In these circumstances, interviewees sometimes felt that CSO data sometimes looked like “activist data” or was too “emotional”, rather than appearing to be rigorous and objective.

Some interviewees expressed some tolerance for this, noting that company-supplied information also contains bias, and emphasising that even information with a strong advocacy message can contain valuable information. However, they highlighted that they found it particularly difficult in cases where the CSO whose data they were trying to use had no published methodology that described their sources or explained how they processed their data.

Relevance

Even when CSO data was judged to be reliable and objective, interviewees stated that it was often not applicable to the decisions that they needed to make. The most frequent complaint was that CSO reports were not framed or presented in ways that would allow analysts to assess financial risk to a given company. As one interviewee remarked, “if it’s an issue that we don’t think will have an impact on a company’s bottom line, it won’t be something that we’re going to look at.” Numerous interviewees felt that CSO data would be more useful if it addressed a company’s “material risk” or “value at risk”.

Value at risk

Value at risk (VaR) is a way of measuring financial risk. It is a statistical technique used to calculate how much a firm or investment portfolio might lose over a specific period of time. VaR is measured by assessing the amount of potential loss, the probability of that loss happening and the time frame.

VaR is usually used by investors to figure out the amount of assets needed to cover possible losses.

Another common complaint from interviewees was that CSO data did not always show how an individual incident was linked to a particular company’s activities - either because there was limited evidence that the company was operating in the same area, or because it was unclear how one company fitted into a larger company’s supply chain. Finally, some interviewees noted that they regularly struggled to link malpractice in a particular location to a commodity that they were interested in, such as a particular type of timber. Overall, there was a sentiment that using civil society-supplied data meant that the analyst conducting the research would need to make a significant investment of time to process and assess the data.

Some interviewees felt that CSOs focused on companies with the highest profile to maximise impact and publicity, even when these companies weren't necessarily causing the greatest level of damage. This sentiment was reflected in a recent study that found that activists tend to target larger, more visible firms - particularly consumer brands - to maximise media attention, even if it was not always the primary contributor to a particular problem.[53] As one information provider put it:

"[CSOs] have a gun with one bullet so they shoot the biggest elephant. They target the biggest because it gives them the most media attention, but it's not always the worst. It would be better to identify a problem and analyse the five companies that seem to be the worst. That would be more relevant and more actionable. Single-company campaigns make it hard to see if that company really stands out or how they relate to the field."

Interviewees added that comprehensive analyses that show trends in a company's activities over time are more useful than case-by-case reports and isolated incidents - although some interviewees suggested that they looked at individual cases, provided that they were thoroughly and reliably documented. For example, some interviewees noted that they had rarely seen systematic analyses of how a company's practices were affected by local laws and regulations in CSO reports, and how this related to the company's value.

Reputation of CSOs

The perceived credibility of a CSO's information is closely linked with its established reputation in the sector. Investors have limited time and resources to verify information, and will therefore prefer to use information from well-known, internationally recognised organisations such as WWF or Greenpeace. Interviewees frequently cited a perception that this information was higher in quality.

Investors are looking for organisations with a specialism or a track record of producing well-documented information. Reputation often rests on how well-known the CSO is, how long it has been established, and whether it is respected within the sector. Some interviewees preferred to mainly rely on large or international

[53] Eesley C, Decelles KA and Lenox M, 'Through the Mud or in the Boardroom: Examining Activist Types and Their Strategies in Targeting Firms for Social Change' (2016) 37 Strategic Management Journal 2425

organisations, suggested that it was “difficult to know the credibility of grassroots organisations.” Vasi and King’s 2012 study found that “[a]ctivists who have more frequent interactions with a firm and more credibility in the eyes of risk managers” are more likely to have their messages about a firm’s environmental risk taken seriously.[54]

Perspectives on “successful” campaigns: palm oil and supply chains

Despite some skepticism among investors about CSO information, reporting and advocacy from CSOs appears to have played a key role in the heightened effort expended on SRI investing. In some cases, investors’ decisions came as a direct response to a CSO campaign or report. In others, research has suggested that engagement is more likely to succeed when it is accompanied by input from a public media campaign.

Successful campaigns have used a range of methods and strategies, aimed at various stages of the SRI decision-making process. Studies indicate that some groups may be more likely to adopt specific methods to achieve their goals: for example, one study indicated that religious groups and activist investors tend to favour lawsuits and proxy votes, while activist groups prefer boycotts and protests.[55]

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[54] Vasi I and King B, ‘Social Movements, Risk Perceptions, and Economic Outcomes’ (2012) 77 American sociological review 573

[55] Eesley C, Decelles KA and Lenox M, ‘Through the Mud or in the Boardroom: Examining Activist Types and Their Strategies in Targeting Firms for Social Change’ (2016) 37 Strategic Management Journal 2425

Opportunities for campaigning and coordination

Characteristics of successful campaigns

Campaigns that have contributed to changes in investors' decision-making may indicate potential ways in which CSOs can more effectively influence investors in future. Identifying common characteristics of such campaigns is difficult because investors rarely make the research used for internal decision-making public, or cite what data that they have used (even when they make reference to a CSO's work).

PRIORITISING IMPROVING THE QUALITY AND CREDIBILITY OF INFORMATION

High-quality, verifiable data can have an impact on investors' actions. For example, in September 2016, a number of companies stopped using palm oil sourced from the Korean palm oil producer Korindo, following a report by the environmental alliance group Mighty. Mighty used evidence from drones, remote sensors, GPS satellites, videographers and photographers to show deforestation and habitat destruction.

However, inaccurate information can be also counter-productive, damaging a CSO's reputation. Interviewees had numerous criticisms of CSO data, which are outlined in *Information credibility and reputation*, above.

The key qualities of useful CSO data described by investors were:

- Transparency of methods: a methodology that clearly cites sources and allows them to be corroborated.
- Objectivity, or a justification of a CSO's reasons for putting forward a particular point of view.
- Demonstrated accuracy, particularly over a longer period of time.

- Credibility, particularly if data is promoted or reinforced by organisations with more international recognition or well-established reputations in the sector.

FRAME RESEARCH IN TERMS THAT ARE RELEVANT TO INVESTORS

CSO research is much more likely to influence investors if it is framed in terms that are relevant to them. This may not be appropriate in many situations, particularly where the CSO's main target audiences are not investors, but it could be useful in cases where a particular company or group of companies are an advocacy target. One interviewee recommended that CSOs seeking to target a particular company could benefit from learning about investors' due diligence process, which would enable them to identify more persuasive arguments.

In such situations, it can be helpful for CSOs to use their communications to translate environmental and social problems into arguments that relate to a company's financial performance. Interviewees emphasised that they would be more likely to take action when CSO information spoke directly to their own concerns about the company's value. Similarly, some investors said that they could be unable to act upon CSO research that focused only on the alleged rights and wrongs of a company's actions, rather than providing quantifiable data on financial risk.

CSO data is also likely to be more useful to investors if it shows trends rather than isolated incidents. On several occasions, investors suggested that they needed information about a pattern of incidents over time, or continuous monitoring demonstrating that a company had not improved its practices, in order to act. A recent survey of asset managers by Extel and UKSIF found that the most valued type of sustainability analyses were thematic pieces (valued by 25.9% of respondents) and stock-specific analysis (valued by 24.9%).[56]

Research that identifies themes and trends may be more likely to lead to concrete impacts if it can demonstrate clear, direct links with specific companies, particularly those in the supply chain of larger, publicly listed companies. This information is already being provided by some specialist organisations: for example, some

[56] Extel and UKSIF, 'SRI & Sustainability Survey 2016' <https://paperpile.com/view/f30f94da-6a19-00e7-b3eb-2f08aae7f81c>

interviewees cited having used information from Chain Reaction Research, and noted that it was framed in a way that was particularly relevant to investors' needs.

The view that sustainability and profitability are intertwined is not, however, universal; in the Extel/UKSIF survey of asset managers, only 36% of respondents thought that sustainability has an impact on stock values.[57] One interviewee explained that there remains a lot of scepticism (among mainstream bankers in particular) that ESG issues really matter when it comes to the fundamental value and risk of investments.[58]

> In 2014 Chain Reaction Research released a risk analysis document showing that deforestation and other sustainability issues posed major financial risks to Bumitama Agri. Soon after, Bumitama introduced policies to reduce its sustainability risks, including dropping three of its growers that were using legally disputed land.

EXPLORE OPPORTUNITIES FOR COLLABORATION

Collaboration can take many forms. A 2015 study on the effects of shareholder engagement found that collaborations among investors and stakeholders makes engagements more likely to succeed, particularly for environment and social issues.[59]

CSOs working together may be in a better position to collect extensive and relevant data, and also potentially harder for investors to ignore. CSOs that collaborate and work with investors and target companies, either directly or by taking part in forums such as the RSPO, have opportunities to influence and guide ESG policies and implementation. For example, in January 2017, Ceres coordinated a diverse set of 18 CSOs and investor groups to collaboratively develop guidelines for companies

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57 Extel and UKSIF, 'SRI & Sustainability Survey 2016' <https://paperpile.com/view/f30f94da-6a19-00e7-b3eb-2f08aae7f81c>

58 'New Analysis of Bumitama Says Firm Is Taking Actions to Mitigate Financial Risk from Sustainability Concerns' (Chain Reaction Research, 16 October 2014) <https://chainreactionresearch.com/2014/10/16/bumitama-risk-analysis/>

59 Dimson E, Karakaş O and Li X, 'Active Ownership' (2015) 28 The review of financial studies 3225

reporting on how they are responsibly sourcing palm oil.[60] In some cases, building stronger relationships between investors and CSOs could also help to develop a common language that can highlight concerns related to financial risk as well as environmental and social harm.

In another example of effective collaboration, a group of CSOs jointly filed a formal complaint with the RSPO against IOI Group (see Perspectives on "successful" campaigns: palm oil and supply chains, above). Some CSOs have also partnered with companies to influence their ESG policies. For example, in April 2010, Nestlé recruited The Forest Trust to extensively review its palm-oil supply chains. In the same year, The Body Shop and Christian Aid co-financed an independent review into one of The Body Shop's palm oil suppliers.[61] Such collaboration raises questions about how CSOs can share data effectively and responsibly. Nevertheless, they may offer CSOs opportunities to broaden impact in cases where various groups' objectives are aligned.

IDENTIFY OTHER INITIATIVES THAT CAN BE USED OR THAT ACCEPT CONTRIBUTIONS FROM CIVIL SOCIETY ORGANISATIONS

There are a range of new initiatives to offer investors and other stakeholders more detailed information on individual investments, supply chains and company commitments (see box, below[62]). CSOs may be able to find opportunities for

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[60] 'Newly Released Guidance Aims to Improve Transparency in the Palm Oil Industry' (Mighty, 24 January 2017) <http://www.mightyearth.org/new-guidance-aims-to-improve-palm-oil-industry/>.

[61] 'Body Shop Decision Praised as It Cuts Ties with Colombian Palm Oil Supplier' (*Christian Aid*, October 2010) <http://www.christianaid.org.uk/whatwedo/partnerfocus/body-shop-praise-for-cutting-ties-with-palm-olive-supplier.aspx>

[62] 'How Fintech Can Help Banks Tackle Deforestation « Global Forest Watch' <http://blog.globalforestwatch.org/supplychain/how-big-data-and-satellites-can-help-banks-tackle-deforestation.html>; GFW, 'Concept Note' (2017), <http://gfw.blog.s3.amazonaws.com/2017/01/Concept-Note-Global-Decision-Support-System-For-Land-Use-Monitoring-and-Deforestation-Free-Assurance.pdf>; https://trase.earth/; http://mana-vox.org/; https://accountability-framework.org/about-us/; Wikirate (2017) 'Investigating Mineral Sourcing Practices' <http://wikirate.org/Investigating_Mineral_Sourcing_Practices>; https://mapforenvironment.org/; http://www.supply-change.org/; http://forest500.org.

contributing to these initiatives, or finding ways in which they can use their data themselves.

Initiatives relevant to CSOs seeking to influence investors

GFW PRO

In late 2017, World Resources Institute (WRI) plans to launch GFW PRO, which allows investors to track deforestation-free commitments and fire alerts in investment areas through a dashboard, using a risk-based approach. It is designed to allow investors to identify risks in a specific geographic area (by identifying and conduct project-based sustainability analysis as well as portfolio-level evaluations and trends. GFW PRO will be available both as an independent platform, and as an API (a mechanism that allows GFW PRO data to be integrated into their other systems).

Trase

Trase is a platform that maps the supply chains of commodities associated with deforestation, and links them to social and environmental data to identify sustainability risks. It is primarily designed for commodity traders, producer and consumer country governments, CSOs and multi-stakeholder initiatives, but hopes to provide information to support investors in future. Trase maps the entire set of exports of a given commodity, from the jurisdiction where the commodity was produced to the country to which it was imported. It currently maps soy exports from Brazil and Paraguay (to the level of producer municipalities), and Argentinean soy and cattle exports from those three countries (traceable to national ports). It aims to include Indonesian palm oil and timber in 2017, and cover 70% of global trade in soy, cattle, timber, pulp and paper, and palm oil by 2021.

MANA

MANA is a platform, currently in development, that aims to aggregate information collected by CSOs on companies' environmental impacts in a specific area. MANA will scan preselected online media and social media for information on environmental violations, categorise the information by theme and company, and present it in a way that is useful for investors. A selected group of CSOs will also be able to distribute information directly to MANA for publication.

The Accountability Framework

The Accountability Framework, led by a civil society coalition including Rainforest Alliance, WWF, Rights and Resources, Proforest, WRI and others, aims to provide common definitions, norms, and implementation guidelines to help companies, their suppliers and their partners fulfill their commitments to eliminating deforestation. The coalition aims to finalise a unifying accountability framework by 2020 that comprises guiding principles, implementation guidance and field-oriented tools that can be applied in different contexts and jurisdictions.

Wikirate

WikiRate is a platform that enables everyone to contribute publicly available environmental, social and governance (ESG) data about a specific company according to a set of metrics (some of which are designed by CSOs, such as Amnesty International's work on mineral sourcing practices).

Map for Environment

Map for Environment combines the open-source OpenStreetMap mapping tool with satellite imagery and location data of known logging, industrial agriculture, dam, and fracking locations to create detailed maps of infrastructure, size, as well as communities impacted. It combines data from Global Forest Watch, government agencies, civil society organisations and research organizations, and allows CSOs to add their own data.

Supply Change

Supply Change is a platform that tracks companies' commitments to remove deforestation from their supply chains, and what actions they are taking to do so. The platform contains publicly available data on commodity commitments, progress towards these commitments, and what area they are located in.

Forest 500

Forest 500 annually assesses the public commitments of 500 companies, financial institutions and governments - selected because of their exposure to forest risk supply chains - on indicators related to overall forest policy, commodity policies, operations, reporting and transparency.

SELECT ADVOCACY TARGETS STRATEGICALLY

Careful target selection is another feature of successful campaigns. Some interviewees said that CSOs target companies because they are large or have a high media profile, and suggested that it would be preferable to identify a problem and highlight companies that are the worst performers under a particular metric. For CSOs, this increases the importance of identifying the right target: a 2015 study suggests that shareholder engagement is more likely to succeed if the target firm has reputational concerns, a capacity to implement change, and has successfully been engaged in the past.[63]

CONSIDER MULTI-FACETED ADVOCACY APPROACHES

Campaigns often appear to benefit from using several complementary approaches rather than prioritising one single tactic. For example, Deutsche Bank's May 2014 decision to divest from Bumitama Agri (see case study, above) appears to have come in response to various efforts from CSOs. As part of a public campaign pressuring investors to address problems in the palm oil sector, Friends of the Earth Europe released a report in 2013 showing the illicit behaviour of several palm oil companies, including Bumitama.[64] Later, Friends of the Earth presented cases of land-grabbing by Bumitama at a Deutsche Bank shareholder meeting in 2014. At the same meeting, Rettet den Regenwald presented 87,900 signatures it had collected calling on Deutsche Bank to divest from Bumitama.[65]

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[63] Dimson E, Karakaş O and Li X, 'Active Ownership' (2015) 28 The review of financial studies 3225

[64] Friends of the Earth Europe, 'Commodity Crimes' (2013) <https://www.foeeurope.org/sites/default/files/press_releases/commodity_crimes_nov13_0.pdf>

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Conclusion

Both civil society organisations and investors have an opportunity to more effectively collect, share and present information about companies' activities that are related to deforestation, human rights and land rights. Civil society organisations often have access to on-the-ground information that can add a critical perspective otherwise absent from investors' analyses. Moreover, civil society organisations' interests - protecting rainforests and the rights of people who live in them - often align closely with those of investors.

To make the most of this opportunity, civil society organisations need to know more about how investors collect, analyse and use data - and what they are looking for when they use it to make decisions. As this report shows, investors are simultaneously making efforts to use civil society data in their reporting, and to participate in initiatives to increase the data available for decision-making. Much data produced by civil society is aimed at other target audiences, and will never be relevant for investors. But in other cases, if existing data can be gathered and collated in ways that help investors better understand on-the-ground situation, there are clear gains for all to see.

Contact

Your comments and questions are welcome at post@theengineroom.org