

# Forests under fire:

A call to action to end deforestation

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**As the world seeks to slow the pace of climate change and biodiversity loss, halting and reversing deforestation will unquestionably be a critical part of the solution. In this piece we look at progress towards halting deforestation over the last 10 years, and what needs to happen in the next 10 years to move beyond pledges to ensure that halting and reversing deforestation becomes a reality.**

## Understanding the issue

As the world seeks to slow the pace of climate change and biodiversity loss, halting and reversing deforestation will unquestionably be a critical part of the solution. More than two billion tonnes of carbon dioxide are absorbed by the world's forests every year – equating to one-third of the annual emissions released from burning fossil fuels.<sup>1</sup> The Amazon rainforest and the Congo Basin are regions that do this on an immense scale, earning them both the title of 'lungs of the Earth'.<sup>2</sup> When forests are cleared or burned, this not only releases carbon dioxide back into the atmosphere but also eliminates the possibility of future carbon storage.

Land use change, through the conversion of forests to agricultural land and other uses, is a leading cause of biodiversity loss.<sup>3</sup> Biodiversity loss and ecosystem damage pose significant systemic economic threats: research from Oxford University found that biodiversity loss and ecosystem damage could cost more than \$5 trillion through shocks to the global economy.<sup>4</sup> Forests cover around one-third of the land area on our planet and they also provide critical ecosystem services such as climate and water cycle regulation, and soil erosion prevention.<sup>5</sup> Forest degradation and fragmentation threaten the essential ecosystem services that underpin economies,

disrupt delicately balanced carbon and water cycles, increase human-wildlife conflict, and increase human exposure to zoonotic diseases.<sup>6, 7, 8</sup> According to the World Bank, around 1.6 billion people depend on forests for their livelihood and tropical forests host more than 80% of terrestrial species.<sup>9</sup>

In light of this, the current situation is alarming. Since the 1960s, over half of the tropical forests worldwide have been destroyed.<sup>10</sup> In 2023 alone, total tropical primary forest loss amounted to 3.7 million hectares (Mha), the equivalent of losing almost 10 football fields of forest per minute.<sup>11</sup> As a result, if deforestation were a country, it would be ranked third in the world for carbon dioxide emissions.<sup>12</sup>

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In this piece we look at progress towards halting deforestation over the last 10 years, and what needs to happen in the next 10 years to move beyond pledges to ensure that halting and reversing deforestation becomes a reality.

<sup>1</sup> IUCN, "Deforestation and Forest Degradation" (2021)

<sup>2</sup> European Space Agency, "Earth from Space: 'Second lungs of the Earth'" (2009)

<sup>3</sup> IPBES, "Global Assessment Report on Biodiversity and Ecosystem Services" (2019)

<sup>4</sup> \$5 trillion of nature-related economic risks will amplify climate change, says Oxford study | University of Oxford

<sup>5</sup> WWF, "Deforestation and Forest Degradation"

<sup>6</sup> ZSL, "Human-wildlife conflicts in a fragmented Amazonian forest landscape: determinants of large felid depredation on livestock" (March 2006)

<sup>7</sup> Michalski F. et al (2016) Human-wildlife conflicts in a fragmented Amazonian forest landscape: determinants of large felid depredation on livestock. *Animal Conservation* Vol. 9: 2, p179-188

<sup>8</sup> Morand S. and Lajaunie C. (2021) Outbreaks of Vector-Borne and Zoonotic Diseases Are Associated With Changes in Forest Cover and Oil Palm Expansion at Global Scale. *Front. Vet. Sci.*, 24 March 2021. *Sec. Parasitology* <https://doi.org/10.3389/fvets.2021.66106>

<sup>9</sup> The World Bank, "Forests Sourcebook" (2008)

<sup>10</sup> IUCN, "Deforestation and Forest Degradation" (2021)

<sup>11</sup> World Resources Institute, "Forest Pulse: The Latest on the World's Forests" (April 2024)

<sup>12</sup> Global Forest Watch, "By the Numbers: The Value of Tropical Forests in the Climate Change Equation" (October 2018)

# Deforestation at a glance

## Deforestation

is the loss of natural forest as a result of:

- i) conversion to agriculture or other non-forest land use;
- ii) conversion to a tree plantation; or
- iii) severe and sustained degradation.<sup>13</sup>

## Conversion

is the "change of a natural ecosystem to another land use or profound change in a natural ecosystem's species composition, structure, or function."<sup>14</sup> Deforestation is one form of conversion and includes severe degradation.

## Forest loss

includes natural destruction such as wildfires, pests and windstorms of woodlands that may grow back.<sup>15</sup>

There are five primary drivers of deforestation, as summarised by our World in Data:<sup>16</sup>

### 1. Commodity-driven deforestation:

"the long-term, permanent conversion of forests to other land uses such as agriculture". The key deforestation-linked commodities are:<sup>17</sup>

- **Cattle** (most prevalent in Brazil and Paraguay)
- **Palm oil** (most prevalent across Southeast Asia)
- **Soy** (most prevalent across South America)
- **Cocoa** (most prevalent across West Africa)
- **Rubber** (most prevalent across Southeast Asia)
- **Coffee** (most prevalent in Indonesia)
- **Wood fibre plantation** (most prevalent in Brazil, Vietnam and Indonesia)

### 2. Forestry production:

"the logging of managed, planted forests for products such as timber, paper, and pulp. These forests are logged periodically and allowed to regrow."

### 3. Shifting agriculture:

"the small- to medium-scale conversion of forest for farming, which is later abandoned so that forests regrow. This is common in local subsistence farming systems."

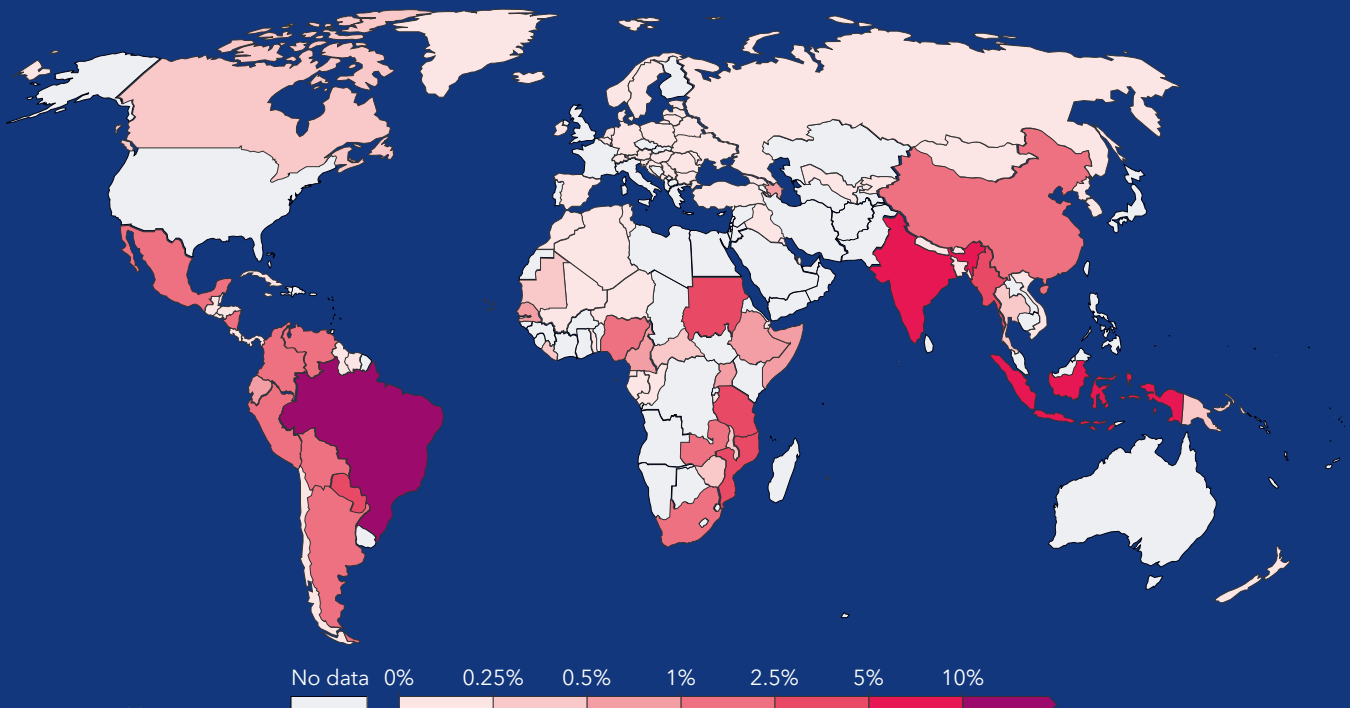
### 4. Wildfires:

"destroys forests temporarily, and when the land is not converted to a new use, forests can regrow in the following years."

### 5. Urbanisation:

"the long-term, permanent conversion of forests into land for cities and infrastructure."

## Share of global annual deforestation in 2015



Source: Our World in Data.

<sup>13</sup> Accountability Framework initiative, "Definitions"

<sup>14</sup> Accountability Framework initiative, "Definitions"

<sup>15</sup> Reuters, "Tropical forest loss eased in 2023 but threats remain, analysis shows" (April 2024)

<sup>16</sup> Our World in Data, "Deforestation and Forest Loss" (May 2024)

<sup>17</sup> World Resources Institute, "Deforestation Linked to Agriculture" (April 2024)

## The past 10 years

Over the past decade, various pledges and funding commitments have recognised the vital roles of forests and the devastating consequences of deforestation. Governments have pledged to restore forests, halt deforestation and channel global forest financing numerous times. The New York Declaration on Forests at the UN Climate Summit in 2014 pledged to halve the loss of natural forests by 2020, and strive to end it by 2030. It was endorsed by more than 40 national governments and more than 20 subnational governments, along with a number of the world's largest companies, Indigenous Peoples organisations and civil NGOs. 10 years on, however, actual progress has been limited.

According to the Global Forest Watch, from 2010 to 2023, there was a total of 334 million hectares (Mha) of tree cover loss globally, equivalent to an 8.5% decrease in tree cover since 2010 and 147 gigatonnes of CO<sub>2</sub> emissions.<sup>18</sup>

Whilst some regions such as Brazil and Colombia have seen reductions in the rate of forest loss; Bolivia, Laos, and Nicaragua have all suffered rapid rises, particularly in 2023, due to fires and expansion of agricultural land.

In recent times, new drivers of deforestation have also emerged. Nickel mining is one of the latest threats to Indonesia's mineral-rich forests due to the booming electric vehicle industry.<sup>19</sup>

## Ending deforestation and investing in natural climate solutions could, according to one source, provide up to 37% of the mitigation needed to meet the goals of the Paris Agreement.<sup>21</sup>

The Intergovernmental Panel on Climate Change 2021 report found that immediate, rapid and large-scale action is needed if emissions are to peak by 2025 and warming is to be limited to 1.5°C.<sup>20</sup> Ending deforestation and investing in natural climate solutions could, according to one source, provide up to 37% of the mitigation needed to meet the goals of the Paris Agreement.<sup>21</sup> It could also support the global goal for nature to halt and reverse biodiversity loss by 2030. If action is delayed until after 2030, the potential for mitigation drops to 33%, and then drops again to only 22% after 2050.<sup>22</sup>

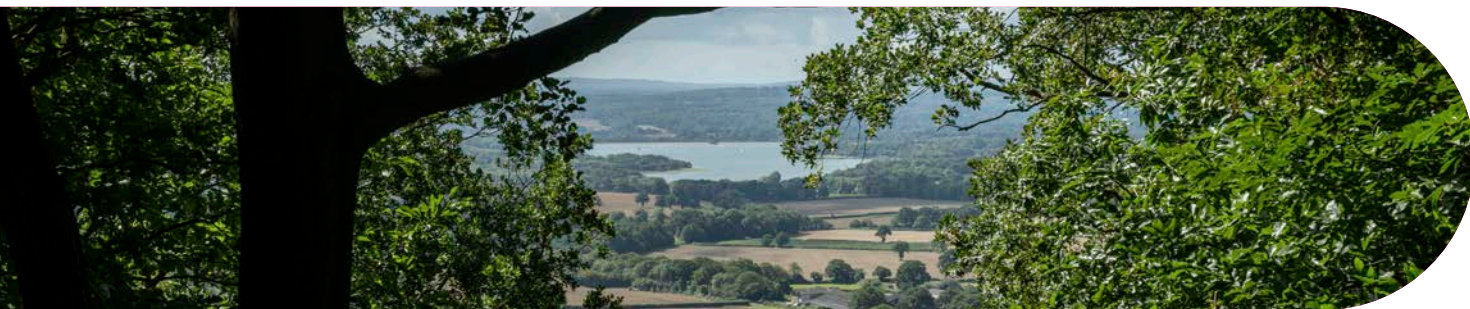
Momentum gathered at COP26 in 2021 when more than 140 countries endorsed the Glasgow Leaders Declaration on Forests and Land Use, which has an overarching goal of halting and reversing deforestation by 2030. These countries represent 85% of the world's primary tropical forests and 90% of global tree cover.<sup>23</sup>

Progress since the launch of the pledge has varied across regions. Tropical Asia is faring better, with Indonesia and Malaysia on track to meet targets, while Latin America and the Caribbean are the farthest off track.<sup>24</sup> As concluded by the Forest Declaration Assessment Report, the world is currently moving too slowly to end deforestation by 2030.<sup>25</sup>

The Finance Sector Deforestation Action (FSDA) Initiative was also launched at COP26. An accompanying pledge to eliminate commodity-driven deforestation from their investments and portfolios was signed by 34 financial institutions (including Federated Hermes Limited).<sup>26</sup> Since its inception, the initiative has been successful in accelerating financial institutions' efforts to end deforestation. All but one signatory has published a deforestation policy and publicly disclosed on deforestation risk and mitigation activities in their portfolios.<sup>27</sup>

Whilst this group of financial institutions have taken action to address deforestation, progress across the wider industry remains limited. Recent analysis by Global Canopy suggests that 30% of the 500 financial institutions and companies they have been tracking since 2014 do not have a single publicly available deforestation commitment. Meanwhile, nearly two-thirds of those companies that have set commitments have failed to publish adequate evidence of their implementation.<sup>28</sup>

Within the agricultural sector, progress has been varied. In 2022, the Tropical Rainforest Alliance facilitated the development of an Agriculture Sector Roadmap to 1.5°C by 14 agricultural commodity traders, which was launched at COP27. The roadmap identifies key actions traders must take to accelerate emissions reductions from land-use change, support the transition to forest positive land-use management and commodity production and work with the stakeholders. Since its launch, signatories have been focused on



<sup>18</sup> Global Forest Watch, "Global Deforestation Rates & Statistics by Country"

<sup>19</sup> Land & Climate Review, "Electric vehicles are driving deforestation in Indonesia. But they don't have to" (May 2023)

<sup>20</sup> The Conversation, "IPCC report: global emissions must peak by 2025 to keep warming at 1.5°C – we need deeds not words" (August 2021)

<sup>21</sup> The Nature Conservancy, "How Nature Can Get Us 37 Percent of the Way to the Paris Climate Target" (October 2017)

<sup>22</sup> The Nature Conservancy, "Nature's Potential to Fight Climate Change" (October 2017)

<sup>23</sup> Mongabay, "What countries are leaders in reducing deforestation? Which are not?" (November 2021)

<sup>24</sup> World Economic Forum, "What can we learn from Indonesia and Malaysia's success in reducing deforestation?" (July 2023)

<sup>25</sup> Forest Declaration Assessment, "2023 Forest Declaration Assessment: Off track and falling behind" (October 2023)

<sup>26</sup> Climate Champions, "TACKLING DEFORESTATION + SCALING NATURE-BASED SOLUTIONS (NbS)"

<sup>27</sup> Climate Champions, "Finance Sector Deforestation Action (FSDA) Progress Report" (June 2024)

<sup>28</sup> Forest500, "Annual Report 2024"

implementation. Multinational food corporation Cargill, for example, brought forward its commitment date for ending deforestation and land conversion in Brazil, Argentina and Uruguay from 2030 to 2025.<sup>29, 30</sup>

Progress through voluntary commitments however is not happening swiftly enough and regulation is critical to shift the system. 10 years ago, there was regulatory scarcity. Today, new regulation in the EU and UK, and other key jurisdictions, should incite action on deforestation.

## Today, new regulation in the EU and UK, and other key jurisdictions, should incite action on deforestation.

2021 saw the introduction of the **UK Environment Act**. Schedule 17 of the Act prohibits large businesses operating in the UK from using illegally produced forest risk commodities, with due diligence and annual reporting requirements. Secondary legislation is required to operationalise the requirements. It was announced in 2023 that this secondary legislation would focus on cattle products (excluding dairy), cocoa, palm oil, and soy.<sup>31</sup>

In 2023, the **EU's Regulation on Deforestation-free products (EUDR)** came into force. The EUDR, which will apply from December 2024, introduces stringent due diligence requirements to ensure that companies placing forest risk commodities or derived products on the EU market are able to show their products are deforestation-free (covering both legal and illegal deforestation). The commodities covered by the EUDR include cattle products, wood, cocoa, palm oil, soy, coffee, rubber and a number of derived products (such as leather).<sup>32</sup>

Whilst these regulations represent positive progress, some argue they need to go further.<sup>33</sup> The finance sector, despite lagging when it comes to action on deforestation, is not currently in scope of the EUDR and is expected to be out of scope of UK regulations. The UK Environment Act only covers illegal deforestation.

There has also been pushback from producer countries against the EUDR, including a letter signed by 17 countries to the EU in 2023.<sup>34</sup> This letter raised concerns about the unintended consequences of the regulation, including trade disruption, exclusion of smallholders from supply chains and failure to consider local circumstances. There are concerns that the majority of the costs of complying with regulations such as the EUDR will be borne by producer countries, in particular smallholders who may struggle to meet the costs of certification. This highlights the importance of ongoing dialogue between producer and consumer countries to ensure a fair transition.

Producer countries have also passed their own regulation. This has resulted in positive reductions in deforestation levels in the covered regions but, in some cases, has displaced the frontiers of forest loss elsewhere. For instance, for several decades Brazil's Forest Code has sets limits on the amount of land required to be kept as forest by landowners. In the Amazon rainforest this is 80%, while for its regional neighbour, the Cerrado forest savannah, only 20-35% must be protected.<sup>35</sup> Enforcement of the Forest Code is weak, meaning that these levels are often not met. During 2023, whilst deforestation in the Brazilian Amazon fell, the Cerrado saw deforestation rise to record levels.<sup>36</sup> To lower the global deforestation levels, the world needs stringent regulation across key countries and regions, with strong enforcement and incentives for sustainable agriculture.

<sup>29</sup> BusinessWire, "Cargill Announces Commitment to Eliminate Deforestation and Land Conversion in Brazil, Argentina and Uruguay by 2025" (November 2024)

<sup>30</sup> Tropical Forest Alliance, "Progress on Agriculture Sector Roadmap to 1.5°C" (November 2023)

<sup>31</sup> Written statements – Written questions, answers and statements – UK Parliament

<sup>32</sup> European Commission, "Regulation on Deforestation-free products"

<sup>33</sup> For example: Forest500, "Annual Report 2024"

<sup>34</sup> Trading partners joint letter on EUDR to European Parliament, European Council, European Commission, and Permanent Representative of Spain to the European Union

<sup>35</sup> Forbes, "Brazil Already Has Its Best Tool Against Deforestation" (January 2023)

<sup>36</sup> Global Witness, "The Cerrado crisis: Brazil's deforestation frontline" (February 2024)



## The next 10 years

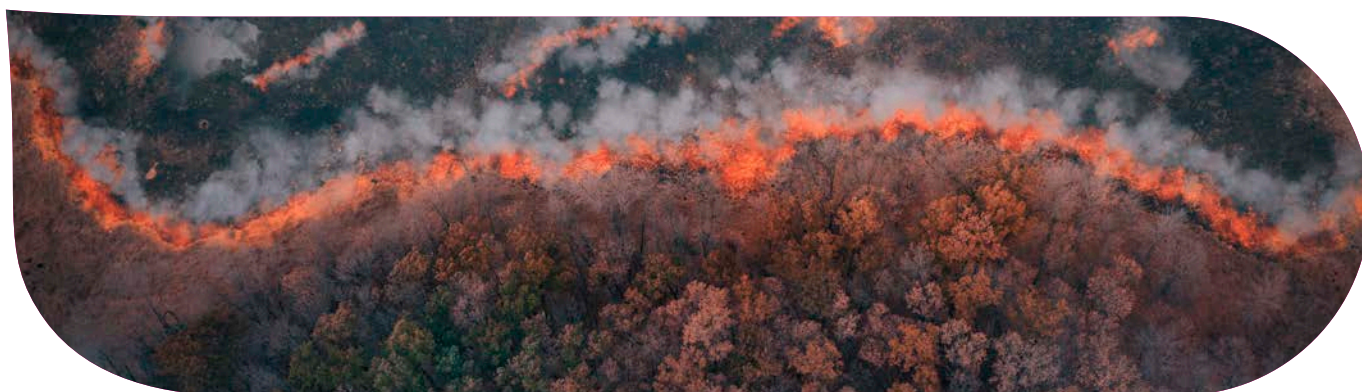
So, what do we need to ensure the next 10 years look better than the last? The key to success will be moving beyond pledges to implementation and achieving real world change by 2030. This will need to be underpinned by:

**Supportive policies:** The right policy levers can halt deforestation by incentivising sustainable production, restricting finance for products linked to deforestation, aligning financial flows, and supporting the enforcement of existing regulation. This applies not just to preventing negative impacts, but also to increasing positive impacts. Costa Rica is a good example of best practice. They became the first tropical country to have stopped, and subsequently reversed, deforestation thanks to a government-led initiative that paid for local communities to help protect and conserve the natural ecosystem.<sup>37</sup>

**Finance:** Despite a number of financial pledges in recent years, there continues to be a yawning funding gap for forests. According to the Forest Declaration Assessment, domestic and international mitigation and adaptation finance for forests amounts to less than 1% of estimated needs for meeting global forest goals by 2050.<sup>38</sup> Closing this gap will require funding from governments, multilateral development banks and private finance. Innovative solutions, including blended finance to crowd in private capital, will also be needed. A recent development from the World Bank is a good example of this. They have issued an 'Amazon Reforestation-Linked Outcome Bond', which will pay a project developer for reforestation projects in the Amazon, generating a return for investors through the sale of carbon removal units.<sup>39</sup>

Carbon and biodiversity credits and offsets are another potential funding source. However, credits typically reward projects that plant new trees rather than conserve and protect existing forests. Other rewards and incentives should focus on protection over re-planting, as it is more cost-effective to keep biodiversity intact in those ecosystems in the first place. For example, Gabon has made an agreement with the Central African Forest Initiative for US\$150 million in return for carbon absorption. In June 2021, Gabon received the first payment of US\$17 million in return for protection of its forests, which will support additional efforts to further decrease emissions and support sustainable development.<sup>40</sup>

**A just transition:** As well as raising the level of finance, funding mechanisms are needed to ensure the costs of halting deforestation are shared between producer and consumer countries. This should support capacity-building in developing economies that produce forest-risk commodities. Smallholders in particular will need support to comply with increased expectations. This could include financial support for the certification process or incentivising the reclamation of degraded land instead of the conversion of forested land. It is also crucial that Indigenous Peoples and local communities (IPLCs) are closely involved in relevant decision-making, and that their effective stewardship of natural resources is supported and leveraged in efforts to halt deforestation. IPLCs, however, receive less than 1% of the total annual climate finance which is needed to secure tenure right and preserve forests.<sup>41</sup> These groups are the most effective stewards of the forests and are the key stakeholders in the development of forest management and governance solutions. Moving forward, to ensure more effective and equitable protection of these ecosystems, we must empower and involve indigenous populations.



<sup>37</sup> Costa Rica Overview: Development news, research, data | World Bank

<sup>38</sup> Off track and falling behind: Tracking progress toward 2030 forest goals (forestdeclaration.org)

<sup>39</sup> New Model for Conservation Finance to Accelerate Reforestation Efforts in the Amazon (worldbank.org)

<sup>40</sup> Gabon leads Africa in the preservation and conservation of forests. | United Nations Development Programme (undp.org)

<sup>41</sup> Indigenous Peoples & Finance – Climate Champions (unfccc.int)

**Data:** To better understand the problem and target solutions, we need better data. This requires action from governments, NGOs, corporates, financial institutions, and data providers. For example, in recognition of the importance of better data to support us in meeting our commitments on deforestation, we were involved in the development of ForestIQ. ForestIQ is a new data platform launched in 2023 for financial institutions which brings together a range of data sources on corporate exposure to deforestation. Led by a coalition of NGOs, this project aims to improve the usability, quality, and scope of data available to investors to allow more accurate portfolio risk assessments and to inform engagement.<sup>42</sup>

**Technology:** Advances in technology are already supporting efforts to halt deforestation. Satellite imagery is used to identify and track illegal deforestation. Smartphone apps allow IPLCs to report signs of deforestation to monitoring organisations. Further development of technology to support due diligence efforts, such as effective tracing of commodity sources in supply chains, will lessen some of the challenges of complying with and enforcing regulation.

**Targeted solutions:** The appropriate solution to prevent deforestation will vary depending on the commodity and the specific circumstances. For example, it is estimated that the land area used for soy crops in Brazil will expand by 10.3 million hectares by

2030 to meet increased global demand. Research estimates that there are approximately 18.5 million hectares of land already cleared, and in some cases degraded such as in the Cerrado, that could be used for soy crops.<sup>43</sup> In this case, supporting and incentivising rural soy producers to recover this degraded land and grow soy sustainably offers a way to expand agricultural production to meet growing demand without conversion of native vegetation.<sup>44</sup>

There is reason to find hope in the future for halting deforestation. COP30, which will be hosted by Brazil in 2025, will place the Amazon and all tropical forests at the forefront of the climate and nature discussions. Also, as the proponent of the Tropical Forest Forever fund, Brazil will have the opportunity to advance this ahead of the summit. There are already promising signs after Brazil and China announced a collaborative effort earlier this year to support the elimination of deforestation and global illegal logging.<sup>45</sup>

On the next page, we outline our key asks of the other stakeholders we engage with – governments, financial institutions and corporates. Each of these groups has a role to play in halting deforestation.

<sup>42</sup> [Explore – Forest IQ](#)

<sup>43</sup> [The Nature Conservancy, "Environmental Framework" \(2020\)](#)

<sup>44</sup> [The Nature Conservancy, "Restoring Degraded Landscapes in the Cerrado" \(April 2022\)](#)

<sup>45</sup> [Climate Change News, "China and Brazil to cooperate in stopping illegal deforestation" \(April 2023\)](#)



## Our asks of governments:

Our asks of governments are informed by the views of NGOs such as Global Canopy,<sup>46</sup> Business for Nature<sup>47</sup> and Global Witness, our involvement in industry initiatives such as the Investor Policy Dialogue on Deforestation and the Finance Sector Deforestation Action initiative, and our direct engagement with governments. We ask all governments to:

- Explicitly commit to end the country's contribution to deforestation on all lands and ensure that pledges such as the Glasgow Leaders Declaration on Forests and Land Use are followed through with effective implementation and action at the national level.
- Introduce and enforce policy and regulatory measures to stop the country's contribution to deforestation by addressing both supply and demand.
- Take a zero-deforestation approach. The scope of regulations should cover:
  - Both legal and illegal deforestation. Focusing only on illegal deforestation may incentivise deregulation in producer countries. For consumer countries, a zero-deforestation approach removes the reliance on the existence and enforcement of adequate level in other countries.
  - All forest-risk commodities. This also helps to future-proof the regulations from emerging threats.
  - Associated human rights abuses.
  - All natural ecosystems involved in the production of forest-risk commodities. This avoids displacing harmful activities to other important biomes.
  - All regions. National regulations should have a zero-deforestation approach for the country as a whole to avoid shifting deforestation activities to different regions.
- Assess new regulations against its zero-deforestation approach to determine impacts, including wildfire strategies.
- Include Indigenous peoples via partnerships in the discussions on solutions to help accelerate equitable action.
- For countries producing forest-risk commodities, pass regulations to prevent deforestation at the source, supported by strong enforcement mechanisms.
- For countries consuming forest-risk commodities, pass risk-based due diligence legislation to increase transparency and prevent deforestation in the supply chain.
- Actively support a just transition. For consumer countries, this includes providing capacity building support to producer countries, particularly developing economies, to comply with the expectations. Funding mechanisms should be developed to ensure the costs of halting deforestation are shared between producer and consumer countries. Smallholders in particular should be

supported to transition to deforestation-free commodity production, including support to comply with the costs of any certification required. This could include providing incentives for sustainable production of commodities, including reclaiming degraded land.

- Invest in technology to improve the mapping and inventory of old growth, mature and at-risk (or under threat) forests and to facilitate the active monitoring of illegal deforestation.
- Consider interoperability with other regulations, in particular the EU Deforestation Regulation which is already in force. This will reduce the burden on companies and their supply chains and prevent a two-tier system where commodities which have not been produced sustainably are directed to markets with looser standards.

## Our asks of companies:

We have aligned our expectations of companies with those set out in the FSDA's Investor Expectations of Companies.<sup>48</sup> These are in line with the aim of enhancing the performance of the company and/or managing the potential reputational and financial risks associated with deforestation that they may face.

- **Commit:** We ask companies to set a public commitment to deforestation- and conversion-free production and sourcing, with explicit commitment to respect human rights and have a target date of 2025 or earlier. Companies should also set a public commitment to trace their supply chain across all tiers of suppliers (including indirect suppliers) and we ask companies to commit resources to participation in collaborative actions to advance sustainability in agriculture commodity production and sourcing.
- **Assess:** We ask companies to perform ongoing due diligence and monitoring of suppliers and operations for compliance with their commitments on deforestation, conversion and human rights abuses. Companies should also set clear requirements for suppliers and manage non-compliance with clear processes. We ask companies to support initiatives for the economic inclusion of supply chain actors in new deforestation-free production models supported by rural producers and local suppliers and ensure that small holders and producers are not excluded from supply chains. Companies should also invest in innovations and new models to reduce business dependence on practices which contribute to deforestation and integrate learnings into new processes with the potential to scale.
- **Disclose:** We ask companies to publicly report on the progress of their deforestation- and conversion-free commitment annually and in some detail in line with the FSDA investor expectations of companies.<sup>49</sup> We also ask companies to report annually on their activities and progress made as part of collaborative actions.

<sup>46</sup> Global Canopy, "What makes an effective law to stop commodity-driven deforestation?" (February 2024)

<sup>47</sup> Business For Nature, "Policy recommendations for effective implementation of the Biodiversity Plan"

<sup>48</sup> Climate Champions, "FSDA Investor Expectations of Companies" (September 2022)

<sup>49</sup> FSDA, "Investor expectations of companies" (September 2022)



## Our asks of banks:

Due to their position in the financing structure, banks play a particularly important role in addressing deforestation. We have aligned our expectations of banks with those set out in the FSDA's Expectations for Commercial and Investment Banks.<sup>50</sup> Again, these are in line with the aim of enhancing the performance of the company and/or managing the potential reputational and financial risks associated with deforestation that they may face.

- **Risk assessment:** We ask banks to conduct a deforestation risk assessment of the bank's exposure to commodity-driven deforestation through its financing activities to determine highest risk related to commodity, sectors and regions.
- **Commitment and governance:** We ask banks to set a public commitment to deforestation- and conversion-free banking across all material non-consumer financing activities, covering all forest-risk agricultural commodities and all operations and geographies, to which the bank has material exposure,<sup>51</sup> while ensuring human rights are respected. The target date should be aligned with the 2030 goal, with best efforts to eliminate deforestation caused by high-risk commodities no later than the end of 2025.
- **Expectations for clients:** We ask banks to set expectations for clients to establish traceability, manage non-compliance, support the economic inclusion of value chain actors in deforestation-free production models, and provide financial products to support clients in investing in innovative solutions.
- **Monitoring and compliance:** We ask banks to perform ongoing due diligence on clients for deforestation commitments, integrate monitoring systems into existing bank processes, set expectations on non-compliance engagement and escalations, and require annual client reporting on deforestation risk. Reporting requirements are suggested across two categories (1) for financing clients directly involved in upstream forest-risk commodities and (2) for financing clients sourcing or trading commodities.
- **Disclose:** We ask banks to publicly report progress on an annual basis including across the following categories: risk assessment; commitment and governance; monitoring, engagement and compliance.

## The path ahead

It is clear that progress is not happening at the speed that is needed. Both regulatory and voluntary action will be required to alter the current deforestation trajectory and halt its contribution to climate change and biodiversity loss. COP30 will provide an opportune moment to make a break with the past. With Brazil as hosts, we are hopeful that protecting forests will be front and centre of negotiations.

## The role of financial sector:

As an asset manager, we have exposure to financial institutions through our investments. We also understand that we have our own role to play. Given links to both climate change and biodiversity loss, deforestation presents a systemic risk for financial markets and may limit our ability to create enduring, responsible wealth for our clients and their beneficiaries. Deforestation and associated human rights violations linked to agricultural production may present financially material risks to financing and investment activities through operational, supply chain, regulatory, litigation and market risks. These risks could arise, for example, through reputational harm or changing consumer preferences that impact the company or financial institution associated with deforestation, conversion or human rights abuse. It could also come through the imposition of higher costs or fines by governments and regulators. We believe such risks should be addressed as part of our fiduciary duty to seek to maximise long-term financial returns on investment on behalf of our clients.

In recognition of this, we signed up to the Financial Sector Commitment Letter on Eliminating Commodity-Driven Deforestation. In line with these commitments, we see the role of the financial sector as:

- Assessing their potential exposure to material deforestation risks.
- Taking action on the highest risk areas (for example, based on exposure to high-risk commodities and/or high-risk regions) by engaging with companies or clients with the greatest exposure. This engagement can be direct or through collaborative initiatives such as Nature Action 100.
- Developing policies on deforestation and conversion.
- Disclosure on the risk assessment process, mitigation actions and progress made.
- Providing support for regulation and standards that prevent deforestation and nature loss more widely, or that support improvements in the value chain such as greater corporate disclosure.
- Considering how to promote and encourage innovative financing to support enterprises – particularly smallholders – in producer countries to produce commodities without deforestation. Key opportunities to do so include green bonds, sustainability-linked bonds, and biodiversity credits.

<sup>50</sup> FSDA, "Expectations for Commercial and Investment Banks" (September 2024)

<sup>51</sup> Based on the bank's risk assessment results in 1) RISK ASSESSMENT by considering its exposure to high-risk commodities, sectors and regions.

## Federated Hermes

Federated Hermes is a global leader in active, responsible investing.

Guided by our conviction that responsible investing is the best way to create long-term wealth, we provide specialised capabilities across equity, fixed income and private markets, multi-asset and liquidity management strategies, and world-leading stewardship.

Our goals are to help people invest and retire better, to help clients achieve better risk-adjusted returns and, where possible, to contribute to positive outcomes that benefit the wider world.

## Our investment and stewardship capabilities:

- **Active equities:** global and regional
- **Fixed income:** across regions, sectors and the yield curve
- **Liquidity:** solutions driven by five decades of experience
- **Private markets:** private equity, private credit, real estate, infrastructure and natural capital
- **Stewardship:** corporate engagement, proxy voting, policy advocacy

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