Green Finance Institute

Can Commodity-Based Certification Support the Financial Sector to Become Biodiversity Friendly?

Overview

Following the publication of the **Dasgupta Review** in February 2021, the Green Finance Institute has been working with the financial sector to identify actionable steps to decrease negative impacts on biodiversity and increase flows of capital to nature-positive outcomes. Greater uptake of market-based certifications was one recommendation offered by financial institutions.

Through a series of interviews with issuers and users, the Institute has explored the adoption of market-based certifications and the role they play in enabling financial services to ensure the sustainable use of natural capital. We explore the current voluntary certifications landscape and how they are adopted by the financial sector within their due diligence processes and products. The report also presents some of the impact case studies from the NGO certifications and references some of the limitations.

We finish by highlighting the great opportunity for closer alliance between the financial sector and certification partners. The financial sector can provide resources (in the form of funding and expertise to support governance of these certifications) which should alleviate many of the limitations of the certifications and provide them with greater scale. Greater engagement by the financial sector could also create greater assurance of the quality of the standards applied by their certification partners. Ultimately a closer relationship offers the potential to reduce financial sector exposure to nature-negative practices and encourage behavioural change of clients.

Background

Increasing Pressure to Address Sustainability within Supply Chains

Nature-related financial risks and impacts are emerging topics within the broader remit of sustainable finance. Prior to the Dasgupta Review, there had been a growing awareness in the banking sector of the impacts on nature and biodiversity within client supply chains. For example, the **Soft Commodities Compact** was founded in 2014 by the Banking Environment Initiative (BEI) and the Consumer Goods Forum (CGF) with the expressed mission of helping "banks' clients (companies) achieve zero-net deforestation by 2020". While there had been some consideration by leading banks before (e.g., Banco Real[1] being a founding participant in the Roundtable for Responsible Soy) the BEI helped to accelerate bank awareness of their impact on nature and biodiversity.

Despite some progress by banks, they have not met the targets of the Compact. Since the formation of the Compact in 2014, all signatories have enacted some changes to their own policies and most include a soft commodities policy. However, despite the growing number of financial institutions committed to addressing deforestation and nature degradation, studies have shown that these have not been translated into effective implementation of policies.[2]

More recently, legislation is being brought forward in both the European Union (EU) and the United Kingdom (UK) which will mandate companies to conduct adequate due diligence on their suppliers and wider supply chains with regards to human rights, environmental and governance risks. In March this year, the European Parliament passed a resolution recommending to the European Commission, a **directive** on these requirements for members states. Almost simultaneously, the German Government formally adopted the **New German Supply Chain Act**. In November last year, the UK Government announced a consultation on legislation that will require businesses to be more transparent about where they source key commodities from, with businesses who fail to comply facing sanctions. There is a clear direction of travel which will result in larger businesses needing greater transparency, reporting and data pertaining to their supply chains to comply.

Specific to the financial sector, the EU Taxonomy on Sustainable Activities has outlined disclosures that will require banks, institutional investors, and companies to disclose whether, and how, they engage with activities which make a substantial contribution to climate change mitigation and adaptation. Included in this would be qualitative screening criteria and minimum safeguards in sustainable sourcing across all supply chains. The UK is following a similar path with the Chancellor announcing a green taxonomy in the November budget. This UK Green Taxonomy will provide a common framework for determining which activities can be defined as 'sustainable'. Sustainable supply chains will likely be part of that definition.

Finally, the Task Force for Nature-Related Financial Disclosures (TNFD) is following in the success of the Task Force for Climate-related Financial Disclosures (TCFD)[3] and invoking financial institutions to assess, manage and report on their dependencies and impacts on nature. Across the financial sector, we are seeing institutions seeking better understanding of how they can prepare for the introduction of these reporting and disclosure frameworks and investigating the processes and methods they will require.

[1] Banco Real is now part of Santander Bank

[2] **Forest 500 Annual Report 2019**

[3] The TCFD aims to improve and increase reporting of climate-related financial information.

The Role of the Green Finance Institute

The Green Finance Institute, as the interface between public and private finance in the UK, has been working with global financial institutions to explore how they can adapt to these emerging trends and respond effectively. Additionally, the Institute works on a number of projects designed to mobilise capital towards nature-based solutions and projects, as well as being a core member of the steering committee on the Informal Working Group for the TNFD.

Following the publication of the Dasgupta Review, the Institute hosted a virtual roundtable with more than 25 banks, asset owners and asset managers to discuss the conclusions of the Review and specifically explore Chapters 17 and 20 which highlight nature-related financial risk and impact. This resulted in several recommendations for courses of action that could be taken to redirect the capital flow away from nature-negative activities. A full set of those recommendations can be found on the Green Finance Institute **website**.

The Potential of Certifications

One recommendation is that financial institutions engage with and require sustainable supply chain certification schemes. The Institute therefore wanted to explore whether adoption of such voluntary sustainability certifications was an effective tool that the financial sector could deploy, as a response for the need of greater accountability of their impact on nature.

We sought to understand:

a) What is the extent to which the financial sector has been engaging with commodity-based certifications? Are institutions including them within their due diligence policies or as part of any product offers?

b) How successful have these certifications been in providing assurance that negative natural capital impacts are minimised in supply chains?

c) If successful, what have been the challenges to further adoption of these certifications by the financial sector?

d) If improvement is needed, how is the financial sector engaging with certification NGOs and would development of that relationship be supportive?

Certifications: Landscape and Bank Engagement

Methodology and Landscape

The focus of the paper is on private, NGO-based standards and their role in providing the financial sector with assurance around how their operations impact nature. The private, NGO-developed schemes include multi-stakeholder, market-based, commodity-related certification schemes which tend to be voluntary and aim to assure the recipients along the supply chain that their certified commodity has been sourced in adherence to high social and environmental standards.

To understand the role that certification can play in supporting financial institutions with their adoption of nature positive practices, we engaged with several leading certification systems primarily with the International Social and Environmental Accreditation and Labelling (ISEAL)[5] Alliance members. Interviews were conducted with:

- **Roundtable on Sustainable Palm Oil (RSPO)**
- **Forest Stewardship Council (FSC)**
- **Roundtable on Responsible Soy (RTRS)**
- **Aquaculture Stewardship Council (ASC)**
- **Marine Stewardship Council (MSC)**
- **Programme for the Endorsement of Forest Certification (PEFC)**

A full list of each certification along with its history, aims and governance can be found in the Appendix. Furthermore, the full list of ISEAL members can be found **here**.

Bank Engagement with Certifications

Many leading global banks have policies that reference commodity-based certifications as pre-requisites to receiving financial services. However, the table below will show that few financial institutions are actively engaged with these certifications as members. Each of the certification systems we spoke to highlighted that they would welcome increased engagement with the banking sector and would welcome their input into the standard setting process. For example, RSPO is often heralded as a leading certification yet only 15 of its 5000 plus members are from the financial sector.

"Historically, most of our members have focussed their engagement on supply chain companies, not financial institutions [FIs]. We are overcoming this gap as it is becoming clear that committed FIs are looking for credible sector- or commodity standards. That said, we have only scratched the surface of how FIs could support credible initiatives. Closer collaboration could not only strengthen uptake, but also push forward innovations towards better accuracy and more transparency, for example."

David D'Hollander, ISEAL Alliance

[5] ISEAL is a global membership of organisations who collectively are working to drive sustainability practices mainly through certification programmes.

Figure 1: Examples of the current bank engagement with certifications and memberships

Bank	Policies	Memberships
Bank of America	As part of the Banks **Environmental and Social Risk Policy** Framework, there are policies on biodiversity and ecosystems: • On forestry, Bank of America have developed their own Forests Practices Policy. This includes recognition on suitable certifications and references FSC, the Sustainable Forest Initiative and the Canadian Standards Association • On palm oil, the bank use RSPO as minimum requirements for clients	N/A
Barclays	Barclays have a **Forest and Agricultural Commodities Statement** which includes: • The bank has "no appetite" for companies involved in illegal logging or trading activities and land clearance Additionality, Barclays require all forestry, palm oil and soy companies to: • Prohibit the conversion or degradation of primary forests, HCV or HCS areas • Adhere to recognised certification schemes within a limited timeframe. These schemes are RSPO, FSC, RTRS, PEFC (or comparable certification schemes) • Adopt a public commitment to 'No Deforestation, No Peat and No Exploitation' (NDPE)	N/A
BNP Paribas	BNP Paribas' **Commitments to the Environment** lays out the bank's position: • BNP requires pulp and palm oil companies to have membership of certification schemes or time bound plans to achieve full certification • Agriculture policy states that financial products will only be provided to those projects not located in a list of protected areas • Palm oil policy also stipulates mandatory requirements and evaluation criteria for upstream and downstream companies • For forestry, a national scheme endorsed under the PEFC is accepted also	RSPO
Citi Bank	Citi Bank has an **Environmental and Social Policy Framework** which recognises that protecting and conserving areas of critical habitat, significant biodiversity and/or high conservation value, including legally protected areas. They have also adopted public standards and certifications which inform their approach to sustainable finance and risk management including: • RSPO • Poseidon Principles • PEFC (and SFI as member of PEFC)	RSPO
Deutsche Bank	Deutsche Bank has a **Soft Commodities Compact Progress Report** which outlines the following requirements: • Palm oil clients are required to have RSPO certification • Clients in the soy industry are expected to disclose commitments to RTRS • Forestry clients are expected to have commitment to FSC and PEFC • Clients are expected to demonstrate a zero-net deforestation commitment or policy	N/A

Bank	Policies	Memberships
HSBC	• HSBC first introduced **sustainability standards** in 2004 • In 2017, standards were strengthened by expanding their prohibited business commitment making it consistent with NDPE policies. HSBC will not agree to new facilities that do not comply with NDPE • HSBC claim that their standards have encouraged customers to become certified since 2014 • HSBC reference PEFC and FSC in their 2014 Forestry Policy	FSC RSPO
JP Morgan	JP Morgan have an **Environmental and Social Policy Framework** focused on soy, palm oil and timber: • All palm oil production customers require an enhanced review of transactions. The RSPO is the framework for assessments • All companies are required to be members of RTRS • FSC is the preferred certification when financing forestry projects that impact high conservation value forests	N/A
Lloyds Bank	• Requirement for palm oil and timber clients to comply with certifications including PEFC, FSC and RSPO • The Bank endorses the New York Declaration on Forests (NYDF)	N/A
Morgan Stanley	Morgan Stanley has an **Environmental and Social Policy Statement** which includes sector specific policies: • Forestry – "We will not knowingly finance companies or projects that collude with or knowingly engage in illegal logging." They must also be working toward FSC certification or a comparable certification or have it • Palm Oil - "Morgan Stanley will not provide financing for companies that are directly involved in the upstream production of palm oil, unless the companies have achieved Roundtable on Sustainable Palm Oil (RSPO)	N/A
Rabobank	Rabobank have a **Sustainability Policy Framework** for most soft commodities and the Bank expect companies to be certified. • Biodiversity is mostly focused on Netherlands and partnerships there • Towards Sustainable Soy is a policy which includes Rabobank's own soy sector policy. This includes a rating system ranging from 'sustainable leader' (A rating) to 'does not adhere to Rabobank's sustainability policy' (D rating) • Rabobank is an 'active' member of RTRS sitting on executive board • WWF Brazil and Rabobank have partnered together to measure, monitor and incentivize responsible, regenerative land use in Brazil's soy sector • On palm oil, Rabobank only provide financing to clients who are members of RSPO • Aquaculture clients are expected to become certified under ASC and MSC (depending on relevance) • Forestry clients are expected to be certified under FSC and PEFC	RTRS RSPO Global Roundtable for Sustainable Beef[6]

[6] No associated certification for the Global Roundtable on Sustainable Beef

Bank	Policies	Memberships
RBS/ NatWest	NatWest expects and encourages customers to demonstrate a commitment to the relevant practice including RSPO, RTRS, FSC & PEFC. customers are encouraged to attain certification status by an agreed timeframe. • Palm oil customers expected to be fully certified by 2020-24 • 100% of soy customers expected to be fully certified by 2020-24 • 100% of timber customers are FSC only or FSC and PEFC certified	N/A
Santander Bank	Santander considers "best practices, international standards and treaties" such as: • Revised principles, criteria and certifications of the Forest Stewardship Council (FSC) • The Programme for the Endorsement of Forest Certification (PEFC) • Principles and Criteria for the Production of Sustainable Palm Oil (2013) issued by the Roundtable on Sustainable Palm Oil (RSPO). • Standard for Responsible Soy Production issued by the Round Table on Responsible Soy (RTRS) • Ramsar Sites, World Heritage Sites, or areas classified by the International Union for Conservation of Nature (IUCN) as categories I, II, III or IV2 • The Equator Principles	RTRS[7]
Société Générale	Société Générale has sector specific policies in place for **palm oil**, **forestry** and **agriculture, fisheries and food**. • Forestry and palm oil clients are required to not create plantations that replace primary forests or HCV areas • For palm oil, it is required that customers have RSPO membership	N/A
Standard Chartered	Standard Chartered have a **Soft Commodities Compact** that outlines several policies: • The Bank will only provide financial services to palm oil clients that commit publicly to NDPE standards • The bank requires FSC or PEFC certification for forestry clients and RSPO for palm oil clients	RSPO

[7] Santander Brazil are members.

Successes and Limitations

The Success of Certifications

Each of the certification NGOs we have spoken with highlight the high standards they uphold in maintaining biodiversity ecosystems as well as social considerations in production countries. While individual certifications vary in their implementation, transparency performance and effectiveness, different schemes can point to success when their standards are applied.

- Researchers from Wageningen University[8] reviewed 31 studies on the effectiveness of FSC and PEFC and concluded that overall FSC and PEFC certifications produce positive environmental impacts compared to non-certified conventionally logged forests[9]
- Continuing with FSC, a 2015 study found that the certification had reduced aggregate deforestation in Indonesia by 5 percentage points and incidence of air pollution by 31%[10]
- Another report from the Wageningen University[11] suggested that Voluntary Sustainability Standards have been partially effective at reducing local deforestation and there was minimal evidence that other approaches had any impact at all

Each certification highlights its growing impact via an annual impact report[12]. **The RSPO 2019 Impact Report** highlights the 39% year on year growth of smallholder certification and 20% growth in RSPO Trademark license holders. This increased coverage of their certification means they can point to saved carbon emissions of 1.4 million tonnes per year. Similarly **MSC's 2019 Impact Report** highlights its broad reach with over 15% of marine wild catch being engaged with the scheme and over 36,000 retail products using the label. Engagement in the MCS scheme can support sustainable, local employment while still trying to provide sustainable marine practices.

For instance, the MSC report highlights the success of the Fiji albacore and yellowfin tuna fishery in reducing unintentional catch of larger marine fish which has been achieved via training modules and better management practices.

"Protecting and preserving biodiversity is fundamental when it comes to responsible food production, and it's important that certification considers the specific impacts of different farmed species. Our recent Monitoring and Evaluation report found that ASC certified salmon and shrimp farms reduced their use of wild caught fishmeal by over 3% between 2015 and 2018, helping reduce their reliance on wild fishery stocks and preserving ocean diversity in an indirect way."

Roy van Daatselaar, Global Lead Improver, Aquaculture Stewardship Council (ASC)

These examples highlight the positive impacts that certifications can have. Financial institutions can look to certifications for increased transparency on how capital flows are being used. This is important if national governments are not providing the necessary legal framework to prevent deforestation and nature degradation. For instance, a 2016 IUCN report found that "certifications in some sectors, like the FSC or RSPO, are doing the work that governments are failing to do in regard to standards setting."[13]

However, the same report concludes that while voluntary certification can be effective, there needs to be a better understanding of the conditions required to achieve success. Even RSPO recognises their standards are in a process of 'continuous improvement'.

[8] **Environmental impacts of Forest Certification**

[9] It should be noted that the report does suggest it is not possible to draw aggregated, generalizable and exhaustive conclusions due about environmental impacts due to limitations (scattered literature, direct impact assessment methodologies, risk of biases)

[10] **Social and Environmental Impacts of Forest Management Certification in Indonesia**

[11] **Outcomes of deforestation-free commodity value chain approaches**

[12] FSC have an **impacts dashboard** which highlights stories about FSC impact

[13] **Castka, Pavel** and **Leaman, Danna J.** 2016. Certification and biodiversity: how voluntary certification standards impact biodiversity and human livelihoods. IUCN Policy Matters. **https://portals.iucn.org/library/node/46325**

Case Study: Roundtable for Responsible Soy (RTRS) Impact on Indian Soy Producers

In 2020, more than 9,280 Indian soy producers certified 16,223 hectares and 35,689 tons of soy under RTRS Standard for Responsible Soy Production. Small holder soy producers are brought together under the Group Certification modality to allow large groups of smallholders to jointly certify under RTRS's five principles:

- Legal compliance and good business practices;
- Responsible labour conditions;
- Responsible community relations;
- Environmental responsibility;
- Good agricultural practices.

Gomtesh Doshi from Mahaveer Udhyog (representative producer for the certified group of smallholders) welcomed the certification and the associated improved task efficiency from its agricultural practices.

"RTRS certification increases efficiency in farm management, which translate into soil protection and better water management. We've also seen improved employee motivation and stronger relationships with neighbours and communities."

Certification Limitations

While there is growing prevalence of certifications in banking policies and many are achieving positive impacts, in recent months concerns have been raised as to the efficacy of commodity-based certifications as providers of assurance of sustainability.

A recent **Greenpeace report** suggested that many certification schemes were not providing the solution to deforestation, forest degradation and other ecosystem conversion for which they are intended. This study included ISEAL members but also many industry or corporation certification schemes. The report highlighted that there are significant differences between different schemes in terms of governance, quality and rigour of the standards and implementation. Greenpeace made clear that many of the certification schemes they reviewed had 'weak implementation'. The report claimed that:

- While some certification schemes have strong standards, weak implementation combined with a lack of transparency and product traceability meant these schemes had major failings;
- Too many companies continue to be linked to forest and ecosystem destruction, land disputes and human rights abuses;
- By improving the image of forest and ecosystem risk commodities and so stimulating demand, certification risks increasing the harm caused.

Some certification schemes have **responded** and questioned the findings of the report. They highlight that the report had a clear objective of influencing EU policies to adopt mandatory regulation and not integrate existing programmes. There are, for example, several reports outlining the strengths of ISEAL members' performance but acknowledging the continual improvement framework for sustainability systems that can mean there are limitations. Key points from the **response** include:

- There is significant research that demonstrates that voluntary standards systems are a notable approach that is scalable and that have been proven to create positive outcomes to reducing deforestation;

- ISEAL members have invested heavily in transparency and monitoring and evaluation, as well as encouraging research on impacts of standards and certification;
- A recognition that supply-chain based approaches and market-based tools have limitations in tackling deforestation but are useful as part of an entire toolbox and have potential for greater impact.

A recent **Bank Track review**[14] of the Soft Commodities Compact highlights that even the compact members saw key certification schemes like RTRS and RSPO as only 'the starting point'.

An additional issue is the need to scale certification schemes to enhance the traceability and transparency for their certifications. The **WWF Deforestation Fronts** report suggested that voluntary certification was "important but thus far have had limited impact at scale." A **2017 Princeton report** on RTRS highlighted the limited application of the standard with less than 1% of soy produced in Brazil being RTRS certified (as of 2017). Certification schemes cannot provide transformative change if they are struggling for adoption in supply chains as well as with financial institutions.

Cost of Certifications as a Barrier

Currently, the cost of some certifications from ISEAL Alliance members[15] makes it very difficult for smallholders to achieve certification. There is work ongoing to evaluate how these smaller smallholders can be supported to achieve certification without compromising the economic benefit of their land.

The difficult question is – who pays? Is the cost absorbed by the consumer, subsidising the large multi-nationals within the supply chain or governments? Is there perhaps a role for financial institutions to provide access to finance for small holders at amenable rates? (see Product Development).

All the certifications we spoke to acknowledge that costs can be prohibitive and that they want to tackle the complex problem of providing high standards of certification at an accessible cost to small businesses and landowners. However, many stressed that the process to mainstreaming use of these certifications is ongoing and with increased uptake, costs per certification could reduce, helping to achieve the right balance between lower costs and high standards.

As such, while certification schemes can have a positive impact, there are limitations. A recent **paper** for the European Business Review for example, argued government regulation and market-based mechanisms (like the Marine Stewardship Council) can only bring sustainability so far. The paper suggested that the financial sector with its global links, influence and leverage could provide the transformative scale in sustainable practices for fishing and other commodities.

"The cost of certification may be relatively high but that is due to a comprehensive package of tools offering training, awareness building, 3rd party verification and traceability.

Certainly, as there is a transition toward scaling up, we need mechanisms to alleviate these costs on producers. Ultimately, we need to reach scale to drive down costs over times. For that we need a common approach and a solid legislative framework that embraces independent standards and certifications like RTRS act as a strong tool and bridge."

Evert Raymakers, Europe Outreach & Engagement Manager RTRS

[14] Bank Track are an NGO-driven campaigning organisation that aim to drive action from banks and other actors.
[15] The costs associated with PEFC and similarly designed schemes are lower as their bottom-up approach were designed for smallholders.

Engaging the Finance Sector

Understanding Financial Sector Adoption

Voluntary certifications are bolstered by support from the financial sector, while the financial sector benefits from enhanced implementation of the standards they mandate in their due diligence policies (ultimately reducing exposure to risky clients).

"MSC assurance mechanisms enable financial actors to work on a common global sustainability definition, thus MSCs system can help create a level-playing field across the finance industry on sustainability within a commodity sector. The use of a common global system enables efficiencies in auditing, reducing assurance related costs for finance actors and seafood industry actors alike. Further, credible standards enable transparent reporting of sustainability performance, of progress made towards meeting certain standards, and of impacts (co-)generated by clients of the finance sector. A simple question by financiers to clients: 'what % of the turnover of wild seafood was MSC certified in the last year' can lead to an insight at portfolio level of the sustainability performance of the financiers themselves. If combined with benefits specified in a loan agreement, the clients will receive a powerful incentive to report as well as to improve the sustainability performance across its business".

Marine Stewardship Council

So, why has there been limited involvement with market-based certifications?

The lack of engagement with the finance sector can be partly attributed to the evolution of these certifications. Many, developed by NGOs, have been established with governments or industry. For example, on forestry, PEFC developed as a bottom-up approach working through national forest certification systems, with local stakeholders developing and managing standards. FSC has worked a more market-led strategy to create demand for FSC certified products. They have generally worked with consumer influencers to create awareness of, and then demand for, FSC certification. As the financial sector is not directly involved in such supply chains or activities, the sector has not been involved in the design or review of these schemes.

Furthermore, given the variety of different commodities and the complexity of their supply chains, it can be difficult to fully appreciate/predict their impacts. One Forestry Asset Manager told us that the maturity of some of the forestry certifications gave them an acceptance within the financial industry and some other commodities were less adopted due to the complexity of their supply chains and the ecosystems they impact. However, all certifications we spoke to were enthusiastic about the value that the financial sector could bring. This would not just be in terms of funding support but also expertise on product delivery, process management and wider due diligence understanding.

Therefore, while the distance remains, there is appetite to bring more financial sector expertise into the governance of these certification schemes.

"It would be mutually beneficial to have more financial institutions within FSC's membership; playing an active role in FSC's governance and shaping the ongoing development of our system to better meet this sector's needs, for example in FSC's work around capturing and valuing Ecosystem Services from forests. This financial perspective is often missing in those high-level discussions and decisions around FSC, or if they exist, they come indirectly from forest owners, managers and industry. Given that finance flowing into forest landscape management from private sources is several times higher than public sources, it would bring a missing perspective into decision making at a much earlier and influential stage of FSC's continuous development."

Anand Punja, FSC European Regional Director

Encouraging Financial Institutions' Involvement

There are several forces that should encourage financial institutions to take a more proactive role in collaboration with certification schemes. The EU Taxonomy for Sustainable Activities (and upcoming UK Green Taxonomy) will put the onus on financial institutions (as well as large corporations) to disclose and measure their impact on the environment. This 'push' has meant that many institutions are searching for assurance mechanisms with which they can collaborate with to ensure they are well positioned within these upcoming taxonomies. Furthermore, as outlined in the table above, most banks now have policies to screen out non-certified customers.

However, there is also the 'pull' from consumer demands as well as risk considerations which mean that banks and institutions are, autonomous of regulation requirements, beginning to search out commodity-based certifications to support their product innovations like providing KPIs related to sustainability-linked loans.

"Our worlds are too far apart. We would appreciate being closer and benefitting from each other"

Thorsten Arndt, Head of Communications, PEFC

Benefits of Finance Sector Engagement

Several of the certifications we engaged with highlighted that they had been engaged on the Technical Expert Group on Sustainable Finance as well as on the EU Taxonomy. It is therefore possible that the high standards of these certifications provide some consideration in the consultation. Furthermore, many of the certifications we found were engaged on the consultation of the ICMA Green Bond Principles providing insight into the KPIs associated with use of proceeds. Therefore, soft commodity certifications systems have demonstrated credibility with policy makers when designing green finance initiatives. However, with questions remaining over the robustness of implementation of certification, there is an opportunity for financial institutions to collaborate with certification schemes to drive and enhance the overall performance from their clients who can use certification as a tool, thereby improving the overall credibility of the schemes.

The financial sector could provide financial or in-kind support through participation in processes e.g., standard setting processes. This should enhance these certifications to ensure that their transparency, traceability, and auditing are as high standard as possible and illegal practices are eradicated from all supply chains. This is also in the interest of the financial institutions and policymakers. Participants will get greater insight into how these standards are operated. By supporting these supply chain certification processes, confidence in their own disclosure will be improved. Financial institutions exposure to net negative nature activities will also be reduced, hence, creating value in supporting these certifications.

Already, we are seeing great examples of collaboration between certifications and the financial sector with many institutions seeing great opportunities in wider sustainability practices embedded across their organisations. Many institutions are reviewing how their lending, underwriting and other financial services can be offered to clients if they are not certified or cannot demonstrate a transition plan to certification over a short time period.

Recently, HSBC investigated the practices of one of its own clients Noble Plantations in collaboration with RSPO following efforts from Greenpeace to flag that the client was preparing to clear 18,000 hectares of primary forest in Indonesia[16]. This example highlights the positive outcomes collaboration between certification systems and banks can achieve but equally, the current deficiencies in these relationships in that a third NGO was required to ensure the deforestation did not take place. Hence, while there are improvements with greater due diligence from banks, there is more progression that can be achieved.

[16] **HSBC's investigation into own client saves Indonesian rainforest.**

Certifications within Product Development

Going beyond screening for certification as part of Know Your Customer (KYC) and Due Diligence processes, there is also a grow suite of examples where the financial services offered are linked to performance against these certifications. Rabobank is a major financier of the Chilean salmon industry and as part of a collaboration with the WWF has provided green loans to clients in this industry. The performance indicators on the loans are linked to the Aquaculture Stewardship Council's certification standard. The Marine Stewardship Council's certification had a similar role in the Norwegian SpareBank's €7.65m green loan in 2019.

In a private deal, another bank worked with company in Brazil to provide a sustainability-linked loan with interest rates linked to the number of smallholders that achieved certification.

One banker shared with us that an alliance of banks prepared to charge higher interest rates for companies that do not have certified supply chains would not only encourage firms to improve their supply chains, but also to pass some of the cost of sustainability verification on to consumers.

In the development finance context, the **EcoBusiness Fund**, which aims to promote business and consumption practices that contribute to biodiversity conservation, have used the ISEAL certifications as their standards for offering loans and other support. The fund connects finance with these businesses in Latin America, the Caribbean and sub-Sharan Africa that are certified or transitioning to more sustainable practices. Hence, harnessing the standards of the certifications to provide social and environmental impacts for small businesses. There is an opportunity for financial institutions to do the same across all their portfolio of clients.

Conclusion and Recommendations

Protecting our ecosystems and biodiversity requires a systemic change in the way we value nature and account for our impact. There are emerging trends in policy but also with financial institutions as they begin to respond to this need for change. The Soft Commodities Compact set the sector on the road to reducing financing to nature-negative clients but for real transformation it needs systemic change with greater embedment of certification through risk and compliance processes, capacity building funding and performance incentives through green products.

While commodity certification is not the whole picture, they clearly have a role to play in supporting that systemic change. As such, the progression in financial institutions' use of these certifications is encouraging but there is room for greater involvement. Greater collaboration between the banks and these NGOs can create a positive feedback loop. The banks can provide financial support (via CSR grant or accessible finance) to build capacity and further enhance the transparency, traceability, and audit quality of their partner certifications. As well as provide in-kind resource on the design and governance of these certifications. Therefore, banks and policymakers have greater assurance that they are financing nature positive organisations. It is also worth noting that these certification systems are not amorphous and are at different stages of development in their standards. However, financial institutions can work with different schemes to create a general trend toward greater scalability and removing financing to organisations that negatively impact biodiversity and nature. Certifications become more fit-for-purpose and banks deliver best practice due diligence and risk mitigation while providing incentivising products for clients.

Our recommendations are as follows:

1. Financial institutions should - where possible - support, engage with, and contribute to the work of the certification systems they subscribe to in their due diligence policies. They should provide a representative from their sustainability strategy teams to interface with the standards development process of the specific certification scheme to provide insight and perspective on what the financial sector expects from these standards and will also strengthen the credibility of disclosure.

2. Financial institutions should provide grant funding to partnership certification systems to enhance the transparency, traceability and audit quality of the standards. This will reduce the risk of leakage in implementation.

3. Financial institutions should collaborate further with certifications to identify products that can be created that offer clients greater rewards for the extent of sustainability they achieve in production. Several positive examples already exist but there is an opportunity for greater scale, and this should be closely monitored to ensure it drives the desired impact.

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Appendix

Certification	Description
Roundtable on Sustainable Palm Oil (RSPO)	The RSPO is a not-for-profit association that brings together stakeholders to develop and apply global standards for the production of sustainable palm oil. The RSPO was established in 2004 to develop a set of environmental and social standards for palm oil production. The organisation has over 4000 members from across the palm oil industry including oil palm producers, processes or traders, consumer goods manufacturers, retailers, banks/investors, and environmental and social NGOs. All members are committed to produce, source and/or use sustainable palm oil certified by RSPO.
Forest Stewardship Council (FSC)	The FSC is a non-profit, international organization established in 1993 that promotes environmentally considered, socially beneficially and economically viable management of the world's forests. FSC also offers an additional ecosystem standard, allowing demonstration of the benefits of management services on biodiversity, water, soils, carbon and recreation. The FSC certification scheme provides assurances that FSC labelled products originate from a responsibly managed forest. FSC is governed and shaped by its members; organisations and individuals that have either an environmental, economic or social interest in its main objective. According to the FSC website, they have around 630 member organisations and 536 individual members.
Roundtable on Responsible Soy (RTRS)	A non-profit association promoting the growth of production, trade, and use of responsible soy. It works through cooperation with those in, and related to, the soy value chain, from production to consumption. These include soy producers, processing companies, traders, manufacturers, retailers, banks/ investors, and environmental and social NGOs. Founded in 2006 in response to the soy industry contributing to significant deforestation in the early 2000s. RTRS provides a global multi-stakeholder platform for dialogue on responsible soy as well as the development, application, and 3rd party verification of a global production standard and chain of custody certification. The RTRS has more than 170 members globally.
Aquaculture Stewardship Council (ASC)	The Aquaculture Stewardship Council is an independent non-profit organisation and labelling organization that establishes protocol on farmed seafood while ensuring sustainable aquaculture. The ASC provides sustainable and responsible aquaculture producers with a stringent certification and labelling scheme guaranteeing to consumers that the seafood they are purchasing is sustainable for the environment, and socially responsible. It was founded in 2004 by the WWF and the IDH. ASC is not a membership body like some of the other certifications, however, it does have an extensive governance structure which has representatives from the private and public sector including academia, NGOs and the industry. At the time of writing there were for 1,403 ASC certified farms, 2,506 ASC certified suppliers and 29,306 ASC certified products.

Certification	Description
Marine Stewardship Council (MSC)	The MSC is an international non-profit organisation which aims to recognize and reward efforts to protect oceans and safeguard seafood supplies for the future. It was founded in the 1990s as a collaboration between the World Wide Fund for Nature (WWF) and Unilever. Their mission is to use the ecolabel and fishery certification program to contribute to the health of the world's oceans by recognising and rewarding sustainable fishing practices, influencing the choices people make when buying seafood and working with their partners to transform the seafood market to a sustainable basis. A voluntary program, the reach of MSC continues to grow, with fisheries representing more than 17% of the world's wild marine catch now engaged with MSC's program, and retail sales of MSC-labelled products passed $10 billion for the first time in 2020. Similar to the ASC, the MSC is not a membership body but rather has an extensive governance structure. A Technical Advisory Board, Stakeholder Advisory Council, several board committees as well as subsidiary boards are overseen by the MSC Board of Trustees.
Programme for the Endorsement of Forest Certification (PEFC)	While not a member of ISEAL, the PEFC is an umbrella organisation which endorses national forest certification systems that have been developed through multi-stakeholder processes and tailored to local priorities and conditions. Founded in 1999, PEFC are the world's largest forest certification programme with over 300 million of hectares certified. The PEFC provide forest certification including certified labels on products and brands. PEFC adopt a bottom-up approach reviewing the local and national standards and endorsing them. Hence, PEFC are an endorser of national certification schemes. Both PEFC and ISEAL have certification systems as members, and both develop assurance codes that members abide by. However, the difference being that PEFC set requirements for one particular commodity. They have more than 70 members located around the world including national certification schemes, trade associations and forest owner organisations, providing a vital platform for organisations dedicated to sustainable forestry and certification.

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