TOWARDS A NEW NORMAL IN FORESTS DISCLOSURE FOR BANKS

FIRST MOVERS CALL FOR MORE BANKS TO ADOPT DISCLOSURE TO TRANSITION TO LOW CARBON, DEFORESTATION-FREE ECONOMY

An exclusive interview with:

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CDP invited the most significant lenders in the forest risk commodities (FRC) sectors to participate in the Financial Services Climate Change and Forests Pilot, the very first structured, self-reported disclosure framework for banks to report on climate and forest lending, as well as related risk mitigation measures. The 10 banks volunteering to disclose have the sway to drive real change in the economy; in Southeast Asia, for example, they hold loans of more than US$2.5 trillion and account for over 19% of all lending to FRC sectors including palm oil.
Rabobank is one of the global banks that decided to take part in the pilot. Johan Verburg, responsible for Sustainability Policy and Dialogue at Rabobank, sees disclosure as a necessity for the financial sector. He strongly feels that more financial players embracing and implementing relevant sustainability measures should be the norm. In particular, banks should adopt forest-related metrics as part of a collective effort to transition to a low-carbon, deforestation-free economy.

Banks that have transparently disclosed their sustainability measurements and expectations have helped to drive improvement in terms of a quantitative sustainability assessment of credit portfolios. A common acceptance by a significant part of the financial sector is needed, as is alignment of standardized assessment and measurement metrics. Otherwise, the uneven adoption of sustainability measures will pose a general problem to the rest of the financial players as well as those in the value chain of this sector.

"Silence should become the exception, not the norm. If only a handful of banks adopt the relevant measures and disclose accordingly, we are not going to solve long-term multi-dimensional problems that continue behind the term ‘deforestation.’"

Rabobank
Johan Verburg

Getting everyone on the same page, with unity of thought and a common frame of reference, is highly valuable in driving change and progress in the same direction. The multiplier effect would be enormous.
DISCLOSURE AS THE WAY FORWARD

Rabobank has been participating in CDP’s Climate Change questionnaire since 2016. Their participation in the CDP Financial Services Climate Change and Forests Pilot Questionnaire in 2020 was motivated by its internal quest to expand its forest-related disclosure efforts, given that the metrics for the forest sector are even more complicated than carbon or climate.

Currently, Rabobank covers 21 different high-risk sectors and themes in their policies ranging from biodiversity to land governance, and human rights. Rabobank has noted several sectors in their portfolio where deforestation risks are higher such as in palm oil, soy, forestry and sugar.

As Rabobank has a focus on food and agribusiness, participating in the Pilot was relevant to speed up its own understanding and development of its measurement and monitoring methodologies, while ensuring that the identified measures are applied consistently in the sector and within Rabobank itself.

If more players – financial institutions as well as clients – adopt similar methodologies towards disclosures, banks like Rabobank would be in a better position to objectively assess and benchmark their performance and space for improvements. Rabobank said that better measurement could lead to better progress tracking, allowing an engagement approach with clients to be part of the solutions offered. For instance, indicators of performance improvements related to sustainability-linked loans can be monitored and rewarded accordingly.

There is currently no one-size-fits-all in terms of what the different financial institutions are measuring in sector-specific sustainability indicators. The challenges lie in ensuring the appropriate metrics and relevant, consistent data underscore the expectations of the banks’ reporting to ensure everyone has an aligned understanding.
RAISING THE INDUSTRY BENCHMARK FOR A FOREST POSITIVE FUTURE

Rabobank addresses deforestation risks through their policies on biodiversity, land governance and human rights, because deforestation does not stand on its own as a one-dimensional topic. Some of the Bank’s efforts in this area are as follows:

• In spearheading its development in carbon banking, Rabobank recently launched an agroforestry initiative aimed at measuring and monetizing sequestered CO$_2$. The Bank connects large corporates looking to offset their emissions with smallholder farmers who are sequestering carbon through agroforestry. This is done through an online platform bringing together various carbon supplies and demands, as well as helping farmers improve their business model by transforming monoculture farming into future-proof agriculture. The ambition is to reduce carbon emissions with 150 Mton CO$_2$eq annually by 2025.

• The Bank has made sustainability-linked loans, and sustainability or green bonds with additional green objectives and different conditions, available alongside conventional products and services to their clients in the lending portfolio. For products such as green bonds, when the client meets certain conditions, Rabobank can reward them by applying different interest rates. This is substantiated by the business case of a future proof portfolio.

• In the case of blended finance, Rabobank is able to mix private funds with public funds and align with public goals while spurring clients to work on climate-positive or sustainability targeted investments. This allows for example longer tenures than would be commercially feasible.

These initiatives can be used as examples that other banks can adopt and adapt in their offerings, thereby creating a wider pool of sustainability-related products that will soon become conventional offerings.

To learn more about CDP and our research on global environmental impact, visit https://www.cdp.net/en or view the full CDP Climate Change & Forests Report.