



A STEP-BY-STEP GUIDE TO DEFORESTATION AND CONVERSION FREE SUPPLY CHAIN PORTFOLIO

Deforestation and conversion free investing is an ongoing journey that requires constant vigilance and proactive actions to unmask hidden risks and make the zero-deforestation ambitions a reality. The following checklist offers a comprehensive step-by-step guide to help investors navigate the investment landscape with confidence and ensure deforestation and conversion free supply chain choices

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CREDITS

Authors

Natalie Rosen (Instituto Latino-Americano para Justiça Coletiva – ILAJUC)

Content

Natalie Rosen – ILAJUC (writing), Jaciele Davi Neto – WWF-Brasil (revising), Elisa Mousinho – ILAJUC (revising), Luísa Luz de Souza – ILAJUC (revising), Leonardo Machado – ILAJUC (revising)

Technical Supervisors

Jaciele Davi Neto (WWF-Brasil)
Fabiola Matos (WWF-Brasil)
Daniel Silva (WWF-Brasil)
Jacqueline Lisboa (WWF-Brasil)
Adriana Ferranni (WWF-Brasil)
Natalie Rosen (ILAJUC)
Luísa Luz de Souza (ILAJUC)
Pedro Henrique Martins (ILAJUC)
Paulo Henrique Dantas (ILAJUC)

Design and Visual Law Application

CMPRESS Comunicação Jurídica Planejada

Content adaptation

Tatiana Akashi

Editorial Design

Tayelen Castro, Matheus Serpa

Cover Photo

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Pre-Financing Steps

1. Analysing the Risk Landscape

Identify Sectors and Geographical Areas with significant deforestation and land conversion footprints, such as timber, cattle, soy, and palm oil. Focusing on areas with rampant deforestation and conversion activity, like the Amazon rainforest and the Cerrado savanna, necessitates further scrutiny. **Check potential investees' activity in these sectors and regions.**



For farm-related businesses – Inspect rural property documents to ascertain the presence of any environmental restrictions, such as land categorisation as PPA/LR, embargoes or fines imposed by IBAMA, as well as considerations like the land's location (whether it falls within indigenous or quilombola territories) and compliance with environmental licensing. Additionally, confirm registration in the CAR.



For slaughterhouses or meatpacking businesses – Verify whether they have signed the TAC and review their compliance history. Assess the presence of monitoring systems and their coverage of indirect suppliers.



For traders (especially in the food industry) – Examine traders' monitoring and traceability tools for upstream chain actors (such as the farms cultivating the soybeans). Review traders' requirements for sustainable agriculture policies among their upstream chain actors, as well as traders' own due diligence policies to ensure compliance with sustainable agriculture standards.

Check History of Potential Investees in activities related to deforestation and land conversion.

Gather Information from potential investees, covering their **current**:



Deforestation commitments.



Policies regarding sustainable agriculture and sustainable land-use systems (such as, rotational livestock grazing, integrated crop-livestock-forestry systems, livestock semi-intensification, reuse of land already deforested, soil conservation, agroforestry and reforestation).



The rigor of their compliance procedures.



Transparent traceability systems across the entire supply chain.

Consider Incorporating the 'Double Materiality' Disclosure Requirements.

This concept entails companies reporting not only on how sustainability issues could pose financial risks for the company (financial materiality) but also on the company's impact on people and the environment (impact materiality).



2. Check Facts with Rigour

Verify Information Independently through a combination of methods: conduct independent audits, utilising ground-based monitoring (such as IBAMA Open Data) and satellite imagery analyses from public or third-party sources (including DETER, PRODES, MapBiomas, and Programa Queimadas); and engage in consultations with stakeholders. Employ these approaches to ensure comprehensive verification of information and to identify any potential discrepancies.

Dialogue and Engage with potential investees and stakeholders, including local communities and NGOs, to discuss deforestation and conversion risks.



3. Quantify Deforestation and Conversion Risks

Develop a Comprehensive Risk Scoring Methodology to assess the potential investee's exposure to deforestation and conversion, flagging low, medium and high risk. Factors such as sector and geographical area of the investee's business, its operational practices, deforestation and conversion policies and commitments, compliance procedures, and supply chain transparency, as well as its impact materiality, must be rigorously evaluated by specialised personnel of the investors.

Post-Financing Steps

1. Ensure Action and Progress

Establish Robust Monitoring Mechanisms to ensure compliance with agreed-upon deforestation commitments and effective progress towards goals for deforestation and conversion-free supply chains.

Verify Compliance Independently through a multifaceted approach, including independent audits, utilising ground-based monitoring and satellite imagery analyses, as well as information from stakeholders, to identify deforestation and conversion trends within the investee's supply chain and highlight areas needing improvement.

Engage and Collaborate with Stakeholders, including local communities and NGOs to gain on-the-ground insights into the investee's progress and challenges in implementing deforestation and conversion free practices. Utilise their knowledge to refine your monitoring strategies and address emerging issues.

2. Engage in Improvement - Be a Catalyst for Change

Collaborate with Investees to Develop Personalised Action Plans for improving their practices in relation to deforestation and land conversion. Offer technical assistance, capacity building, and access to resources to support their transition towards deforestation and conversion free supply chains. Empower them with the ability to make informed decisions and cultivate a collaborative approach through this ongoing partnership.

Define Clear Procedures for Addressing Non-Compliance, including engagement escalation, divestment, or legal action, taking into account the increased legal obligations for investors regarding deforestation and conversion. Define Penalties such as higher interest rates or withdrawal in whole or in part of financing for non-compliance with agreed action plans.

Encourage Public Disclosure of deforestation and conversion risks associated with investments and progress made towards mitigating them. Focus on increasing transparency within the investee's supply chain, paving the way for collective action and industry-wide change.

3. Incentivising Positive Change

Implement Mechanisms to Incentivise and Reward demonstrably improved sustainable agriculture methods, traceability and deforestation and conversion free practices within the investee's Brazilian operations. Offer preferential loan terms, increased financing, or other benefits based on measurable progress.

Join Forces with Other Investors to collaborate on developing and implementing common standards and best practices for deforestation and conversion due diligence in Brazil. Leverage collective investor power to drive systemic change within the market and contribute to a more sustainable future for the country.



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For contact details and further information, please visit our website at wwf.org.br