

WWF Statement on the Role of Financial Institutions in Palm Oil Sector Sustainability

WWF strongly believes the finance sector, including banks, investors and insurers, has a key role to play in helping companies align their business models with the Sustainable Development Goals and the Paris Agreement – in particular where sustainable sourcing, production and consumption are concerned.

In the palm oil sector, financial institutions and other stakeholders can play this role through the promotion and support for the Roundtable on Sustainable Palm Oil (RSPO) standard, as well as other rigorous, science-based sustainability criteria. This requires engagement with clients and portfolio companies to enforce, but also to support and work with them to achieve these criteria. This should be complemented by organizing client outreach, education and capacity building, as well as by supporting responsible land use planning, landscape approaches, smallholder inclusivity and supply chain traceability and transparency.

WWF remains committed to supporting and working with financial institutions to improve their capacity to engage with palm oil sector clients and portfolio companies over key environmental and social risks in the sector, as well as to support their ability to finance sustainable development in the sector through the creation of innovative green financial solutions. Additionally, the recent launch of the [Asia Sustainable Finance Initiative \(ASFI\)](#) positions WWF and eight other Knowledge Partners strongly to support financial institutions with capacity building on sustainable finance, including:

- Research and analysis on palm oil sector company performance to support financial institution engagement
- Capacity building on responsible investment, sustainable banking and palm oil sector sustainability standards, risks and opportunities
- Training on tools for assessing and managing deforestation and other risks in the sector
- Development of green financial solutions to support sustainable land use

WWF also remains committed to working with the wider palm oil sector through multi-stakeholder platforms across Asia; information on these initiatives can be obtained from local WWF offices.

Due to continuing environmental and social issues in the palm oil sector, financial institutions sometimes decide to divest from the sector. However by doing so, the most committed financial institutions lose their considerable ability to influence and improve the sector's sustainability. There is a high likelihood that divested companies become clients or portfolio companies of financial institutions with less stringent sustainability policies and criteria. As a result, divestment could lead to the erosion of sustainability in the sector, thereby enabling continued deforestation, peat degradation and abuses of human, labour and community rights.

Instead, WWF believes that financial institutions should not divest from palm oil, but instead remain engaged with their clients and portfolio companies in the sector to improve sustainability. Divestment should be a last resort, used when all avenues of engagement have been exhausted, and a company has demonstrably and consistently failed to progress against clear expectations for sustainability. WWF encourages financial institutions to disclose the process leading to such divestments.

This document recommends steps that financial institutions should take to fulfill their potential to support the sustainability of the palm oil sector.

All financial institutions involved in financing or providing financial services to companies in the palm oil sector:

1. Implement the Recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD) and commit to setting Science-Based Targets

2. Join RSPO, participate proactively in its Financial Institutions Task Force (FITF), and make public commitments and report via the RSPO's Annual Communication of Progress (ACOP) regarding their actions to promote and deliver the 2018 RSPO standard for sustainable palm oil production

Banks:

1. Develop and disclose a palm oil sector policy that requires:
 - a. All clients to commit to an NDPE (No Deforestation, Peat, Exploitation) policy
 - b. Grower, processor and trader clients to make ambitious time-bound commitments and action plans for achieving 100% RSPO certification and supply chain traceability to the plantation level, for own operations and third-party sources verified as legal and deforestation-free
 - c. Downstream clients¹ to procure from palm oil suppliers with due diligence procedures in place to ensure full legality of sourced fresh fruit bunches and to achieve 100% supply chain traceability, including publishing up-to-date lists of sources (to the mill); downstream clients should be recommended to set time-bound targets for achieving 100% RSPO-certified sustainable palm oil
 - d. All clients to implement the TCFD Recommendations and to commit to setting Science-Based Targets
2. Disclose the percentage of:
 - a. Grower, processor and trader clients with all of their operations covered by a time-bound action plan to achieve 100% RSPO certification and traceability to the plantation level
 - b. Downstream clients that procure from palm oil suppliers with due diligence systems in place to ensure full legality
3. Disclose processes for monitoring client compliance and progress on time-bound action plans, as well as steps taken in case of non-compliance or failure to make satisfactory progress towards achieving these action plans
4. Commit to only distributing investment products offered by asset managers with exposure to palm oil in any of their funds if these asset managers are 1) RSPO members or 2) signatories to the Principles for Responsible Investment (PRI) that actively participate in the PRI Investor Working Group on Sustainable Palm Oil
5. Commit to smallholder inclusivity and supporting clients, in particular small and medium-sized enterprises, to work towards RSPO certification through organizing client outreach, education and capacity-building programmes

Institutional investors (including internal fund managers at insurers and banks):

1. Become a PRI signatory and participate actively in the PRI Investor Working Group on Sustainable Palm Oil to engage palm oil supply chain companies and their financiers over environmental and social risks in the

¹ Including retailers with private label products containing palm oil, consumer goods and food manufacturers and food service companies

palm oil sector, including deforestation, peat degradation and abuses of human, community and labour rights

2. Develop and disclose an investor expectation statement that covers criteria for palm oil sector portfolio companies pertaining to their commitments, transparency and safeguards against the environmental and social risks identified above, including:
 - a. For all portfolio companies, to commit to an NDPE (No Deforestation, Peat, Exploitation) policy
 - b. For growers, processors and traders, obtaining 100% RSPO certification and achieving traceability to plantation for own operations and third-party sources verified as legal and deforestation-free
 - c. For downstream companies, sourcing 100% RSPO-certified sustainable palm oil, with a goal to move towards segregated or identity-preserved sourcing, and to achieve 100% supply chain traceability, including publishing up-to-date lists of sources (to the mill)
 - d. For banks, to make commitments and disclosures in line with WWF's expectations of banks, as outlined above
 - e. For all portfolio companies, to implement the TCFD Recommendations and to commit to setting Science-Based Targets
3. Commit to engaging portfolio companies that do not fulfill expectations on palm oil-related sustainability criteria and supporting them to develop ambitious time-bound action plans for meeting these criteria. Also, disclose processes for escalating engagement with portfolio companies that are not making satisfactory progress on achieving these action plans
4. Disclose proxy voting policies for key environmental and social risks related to the palm oil sector as identified above, how they voted on resolutions pertaining to these risks and the reasons for their vote