

Soft Commodities Scoping Paper

January 2023



Taskforce on
**Nature
Markets**

KNOWLEDGE PRODUCT

About



Taskforce on Nature Markets

The Taskforce on Nature Markets' core objective is to shape a new generation of purposeful nature markets that deliver nature positive and equitable outcomes. It seeks to achieve this by:



Landscaping, analysing, and socialising **existing and emerging approaches**



Building awareness of **opportunities and risks** across policy, business, and civil society



Building the basis for a **community of practitioners** with a shared vision and narrative



Encouraging synergies between **innovations and innovative people/platforms**



Recommending and advancing **standards of practices** and enabling principles and supportive governance arrangements



Initiating and supporting **pathfinder initiatives** to scale the implementation of recommended approaches and actions.

The Taskforce is an initiative of, and hosted by, NatureFinance (previously the Finance for Biodiversity Initiative - F4B). It benefits from the broader portfolio of NatureFinance's work and the extensive knowledge of its partners and networks. The Taskforce is supported by the MAVA Foundation.

Find out more about the Taskforce on Nature Markets, its members, partners, work programme and how to get involved at www.naturemarkets.net

List of Abbreviations

4C	Common Code for the Coffee Community	KPI	Key Performance Indicator
ADM	Archer-Daniel-Midland Company	LDC	Louis Dreyfus Company
AfCFTA	African Continental Free Trade Area	MAAP	Monitoring of the Andean Amazon Project
AFi	Accountability Framework Initiative	NDPE	No Deforestation, No Peat, No Exploitation
ASM	Amazon Soy Moratorium	NGFS	Network for Greening the Financial System
CAR	Rural Land Registry	NGO	Non-governmental organisation
CFI	Cocoa and Forests Initiative	PRI	Principles for Responsible Investment
CGF	Consumer Goods Forum	REC	Regional economic community
CGM	Consumer goods manufacturers	RSG	Retail Soy Group
COFCO	China Oil and Foodstuffs Corporation	RSPO	Roundtable on Sustainable Palm Oil
COP26	United Nations Climate Change Conference 26	SCC	Soft Commodities Compact
CPO	Commodity Pool Operator	SCF	Soft Commodities Forum
EAC	East African Community	SCPG	Sustainable Commodities' Practitioners' Group
ECOWAS	Economic Community of West African States	SME	Small and medium-sized enterprise
ESG	Environmental, social, and corporate governance	TCFD	Task Force on Climate-Related Financial Disclosures
EU	European Union	TNFD	Taskforce on Nature-related Financial Disclosures
FAIRR	Farm Animal Investment Risk & Return Initiative	The Taskforce	Taskforce on Nature Markets
FAO	Food and Agriculture Organization	UNCTAD	United Nations Conference on Trade and Development
IISF	PRI-Ceres Investor Initiative for Sustainable Forests	WBCSD	World Business Council for Sustainable Development
IPDD	Investors Policy Dialogue on Deforestation Initiative	WRI	World Resources Institute
IPES-Food	International Panel of Experts on Sustainable Food Systems	WWF	World Wildlife Fund

Soft Commodities Scoping Paper



About this report

The Taskforce on Nature Markets was established in March 2022 in response to a rise in markets that explicitly monetise and trade nature ('nature markets'). The broad contours of this development were set out in the Taskforce's formative white paper, 'The Future of Nature Markets'.¹ Building on the second white paper, 'Nature in an Era of Crises' mapped the learnings and findings of the first phase of work, and pointed to deeper dives to be explored in the next phase. This series of Knowledge Products builds the foundation of the knowledge ecosystem which guides the work of the Taskforce to deliver on its mandate: ensuring the global economy interfaces with nature in ways that deliver nature positive, equitable and net zero outcomes.

This paper was a collaborative piece of work, researched and written by Peter Smith, from the Igarapé Institute, and guided by Marcelo Furtado, Taskforce on Nature Markets Co-Lead, and Monique Atouguia, Knowledge Manager for the Taskforce. It was informed by desktop research and a wealth of in-depth expert insider interviews.

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The views expressed in this paper are those of the authors alone.



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Soft Commodities Scoping Paper

December 2022

Executive Summary

Implications for nature markets

As the oldest and second largest nature market, assessing successful governance interventions in and across food related commodity markets, have important implications for how governance frameworks are designed for emerging nature markets and everything in between. Above all this paper and its insightful case studies provide evidence that despite many efforts, soft commodity markets remain opaque and largely immune to better governance initiatives. The structural and functioning challenges can be summarised as:

Perverse incentives: for most actors in these markets financial incentives still reward nature destructive outcomes across agricultural supply, food production, distribution and consumption. To reshape these markets so that they are by design able to deliver on nature positive and equitable outcomes, requires programming in appropriate incentives and penalising nature destructive and social inequitable outcomes much more harshly.

Poor market wide governance: due to the overconcentration vertically and horizontally in these markets, the big actors across the value chain also control an indirect market which sustains and supports this one, that is, financial investment markets. Specifically, those which enforce and regulate competition and speculation legislation and governance, which is inherently linked to the international aspect of these markets and their international trade. Over time, as the technology improved and the global middle class has grown, a few big actors have dominated international trade and the entire global supply – making the market incredibly resistant to any changes or effective governance. Changing market governance will require addressing this market concentration and oligopoly head on.

Information asymmetry: proper disclosure on sourcing, pricing and distribution is needed on the information available from production to supply chain and final consumer market level. Only with clearer and firmer regulation and governance of data and information, both as related to natural and social impact and effects, can these markets begin to embed greater transparency and accountability, required for better governance.

Given the sheer scale of these markets, at the very heart of our global economy, it is best to consider governance interventions across three essential parts of the market: a) the supply source, b) the production and c) the consumer end of the market. Through a nature lens, this also enables us to solve for cause and effect and helping to proportion liability more evenly and justly across these markets. Across each core segment there have been case studies of successful governance interventions – key learnings which can be applied to other food related commodity markets as well as to different nature markets. Some of these case studies are entirely context specific but still offer universal learnings, some of which have been highlighted in this paper. However, learnings that can be applied across nature markets and jurisdictions include:

Well governed nature markets need clear boundaries in which important elements of nature are out of bounds for markets. This requires strong legal protection and standing as well as clear and well enforced liability for those who transgress these boundaries. The soy moratorium case study provides helpful insight into the effects creating clear boundaries can have across direct and indirect markets and across value chains.

Regulating competition and curbing speculation, enabling improved nature positive and equity capacity therein. These entities also need to improve their cross-jurisdictional regulating and prosecuting authorities to prevent arbitrage.

Addressing information asymmetry across value chains from supply to consumption. This governance intervention falls on every actor within the value chain of nature markets to address and uphold.

Food related commodities are the **second largest global nature market by type, scale and monetary value** (at US\$4.3 trillion a year in global production),² food-related soft commodities play a crucial role in the development and expansion of nature markets worldwide. However, **insufficient sourcing methods and gaps in traceability** threaten to exacerbate the illegal deforestation of critical ecosystems and (directly or indirectly) perpetuate human rights violations, at the same time that **rising food prices due to global demand and unforeseen economic shocks** exert significant pressure to expand commodity production. Furthermore, **many companies and financial institutions are ill-equipped to mitigate socioenvironmental risk and promote sustainable growth within these markets.**

Against this backdrop, **soft commodity markets fail to deliver nature-positive and socially equitable outcomes.** This paper's findings are based on two tracks of evidence. Firstly, the **insights shared by industry experts and insiders** across food, agriculture, finance, international trade and sustainability, with the goal of **identifying market interventions** that could promote nature positive and equitable outcomes. These in-depth interviews also shed light on the various roles of investors, financial institutions, governments and consumers in shaping this market toward these desired outcomes. Secondly, the paper explores the literature and presents analysis on three commodity-specific case studies, specifically, soybeans in Brazil, palm oil in Southeast Asia and cocoa in West Africa, as well as an additional regional case study assessing the potential of AfCFTA to transform African soft commodity markets.³ These case studies touch upon the shortcomings of product- and legislation-based initiatives in shifting market practices and reinforce the Taskforce on Nature Market's ('the Taskforce') focus on market-wide redesign. The paper presents a number of opportunities for positive change in these markets, including:

New pricing **standards** for sustainably traded commodities (e.g., Mercaris)

Improved **incentives**:

- ☒ Tiered tariff structures that price interventions into the market, reward companies that meet certain criteria, and minimise backlash;
- ☒ Transformation of lending conditionalities into incentive mechanisms that reward traceability, transparency and data sharing with debt relief or debt-for-nature swaps;

- Niche contracts and targeted funding of sustainable production practices (e.g., regenerative agriculture).
- Enhanced **corporate and market governance**:
- More sophisticated analysis of annual reports and Key Performance Indicators (KPIs);
- Tying of executive compensation to environmental targets;
- Ensuring that green bonds include penalties for missed targets that prevent greenwashing;
- Global regulatory frameworks with rigorous criteria to verify whether a supply chain is free from illegalities.

Mitigation of **commodity market speculation and concentration**:

- Pressure on competition authorities to require large traders to divulge real-time information around commodity prices, food reserves, exports, and market concentration (acquisitions, mergers, etc.).

Expanded **smallholder access to credit**:

- Allocation of “patient capital” to improvements in technical capacity and added value;
- Preferential interest rates from banks to farmers employing specific nature-positive growing methods;
- Lower deposit rates from central banks to other banks that meet lending targets to the agricultural sector;
- Increased market alignment (e.g., targeted financial products, creation of lender databases).

Technological innovation and infrastructure improvements:

- Support from financial institutions for innovation and improvements that propel economic growth increase agricultural productivity and boost positive environmental and social outcomes;
- Increased market alignment and coordination between the public and private sectors to promote intra-regional trade and staple crops.

Creation of **Climate Clubs**:

- Multi-stakeholder consortium to catalyse positive change in commodity markets.

Establishment of regional or multilateral **commodity-specific “coalitions”**:

- Increased leverage for governments with trading companies in price-setting and enforcing social and environmental standards.

Changes in **insurance** practices

- Avoidance of companies that fail to comply with expected standards or fulfil climate-related commitments.

This paper concludes in highlighting **three specific courses** of action that appear most promising for the Taskforce:

Pressure banks, investors and insurance companies to improve market governance:

- Call out banks, investors and insurance companies that lend to companies whose practices and operations exacerbate or perpetuate environmental and social issues around the world.
- Exhort financial institutions to demand genuine transparency and accountability from investee companies through a combination of 1) enhanced analysis of annual reports and KPIs and 2) meaningful measures like tying executive compensation to the achievement of environmental and social targets.
- Advocate for the rigorous incorporation of accurate and appropriate nature-based risk evaluations into trading contracts, insurance conditions and loan requirements (potentially via contributions to the Taskforce on Nature-related Financial Disclosures [TNFD] framework).

Mobilize cooperative frameworks to promote proper commodity pricing

- Draw on the concepts of Climate Clubs and commodity-specific coalitions to organize the creation of cooperative frameworks through which countries systematically set commodity prices according to the real consequences for nature.
- Raise the cost of nature-negative industry practices to such a degree that incentivizes producers, traders and distributors to change their behaviour.

Address the high levels of vertical and horizontal consolidation in soft commodity sectors, as well as the political influence of large trading companies

- Create a more level playing field for farmers and small and medium-sized enterprises (SMEs).
- Stimulate innovations in technology and supply chain structures.
- Mitigate distorted prices due to commodity speculation.
- Evaluate the types of monetary and antitrust authorities needed to address consolidation in a decisive and sustainable fashion (e.g. United Nations Treaty on Competition).

The imperative of transforming soft commodity markets is driven home by the fact that the **expansion of commercial agriculture represents the main direct cause of tropical forest loss**. In addition to the efforts from financial institutions and banks, the world's biggest agricultural trading and processing companies have also made periodic individual and group efforts to improve the sustainability of their commodity supply chains. However, the availability of relevant tools and information does not mean that the necessary changes and private sector reforms will be executed at the pace required to react and respond to the climate crisis. Thus, even with the considerable momentum of political will and civil society mobilization, **lacunas still exist in the push to achieve truly nature positive and equitable markets**. The financial sector can and should play a critical role promoting the governance and redesign of the soft commodities market.

Contents

List of Abbreviations	3
Executive Summary	5
Introduction	10
Methodology	13
General Context	15
Commodity Case Study 1: Soy (Brazil)	19
Commodity Case Study 2: Palm Oil (Southeast Asia)	24
Commodity Case Study 3: Cocoa (West Africa)	28
Regional Case Study: Does AfCFTA present fertile opportunities for African soft commodity markets?	32
Interview Findings	36
OPPORTUNITIES	37
CHALLENGES	42
Final Considerations	44
ENDNOTES	46

Introduction

This paper was commissioned by and is a product of the Taskforce on Nature Markets ('the Taskforce'). The taxonomy adopted by the Taskforce defines "soft commodities" as encompassing crops, livestock, dairy, fisheries and aquaculture as well as forest products. Soft commodities, namely the trade in food-related commodities, are the second largest nature markets by type, scale and monetary value. Agricultural commodity markets are valued at about US\$4 trillion annually⁴. This paper focuses on the food trade within soft commodity markets – specifically, crops and livestock.

US\$1.3 trillion of soft commodities are traded internationally each year. International imports and exports are a key component of soft commodity markets, with around one-quarter exchanged globally. Moreover, soft commodities represent nearly 5% of annual global trade.⁵ Even major exporters with secure food supplies are often major importers because they can benefit from lower production costs in other countries and consume seasonal goods year-round.⁶ For instance, in 2020, the United States exported US\$120 billion of agricultural commodities and imported US\$100 billion.⁷

Yet the current food price and supply crisis has brought to the surface deeper structural concerns. This includes but is not limited to the opaqueness of soft commodity markets; the risks of over-concentration of supply in a world beset by increasing geopolitical tensions; rising demand for land intensive and thus nature destructive commodities to support the tastes of a growing global middle class; as well as climate impacts. Some of these market distortions have been laid bare in the collaborative *Global Nature Markets Landscaping Study*, by the Taskforce and its Knowledge Partner, Vivid Economics, in that soft commodities market value is concentrated in livestock and dairy production, with animal-based production worth US\$2 trillion and making up 44% of the soft commodities market value.⁸ Furthermore, a large proportion of crop production is used to support animal-based agriculture, particularly in developed countries, with more than 40% of cereals used for animal feed globally.⁹ To illustrate the point, only 11% of cereals grown in the United States are used for human consumption, compared to 95% in Kenya.¹⁰

Soft commodity production value

Based on USD2021 billion / year

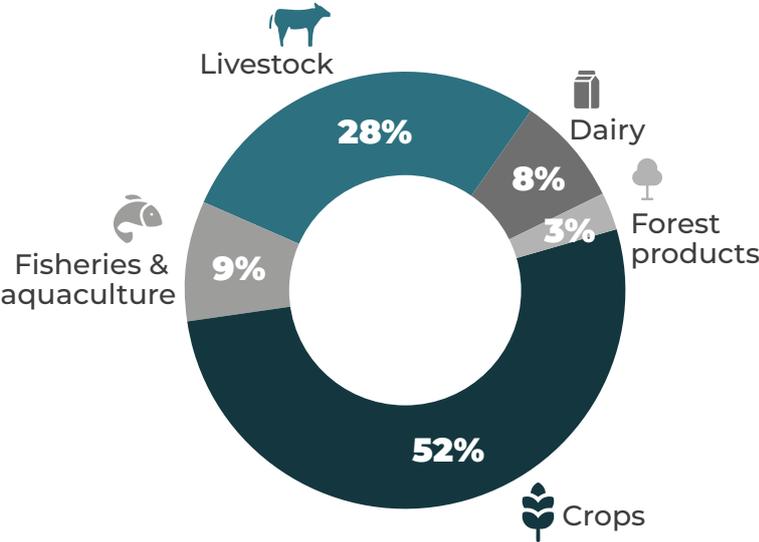


Figure 1

Animal-based production accounts for nearly half of the soft commodities market value

Source: *The Taskforce on Nature Markets and Vivid Economics*

The soft commodities market is rife with nature-related externalities that are unpriced and largely driven by livestock production. Agricultural production is one of the primary consumers of natural resources. The sector uses 70% of annual freshwater abstractions,¹¹ has driven nearly 90% of global deforestation since 2000,¹² produces 23% of annual greenhouse gas emissions and is one of the leading causes of nitrogen pollution.¹³ Most of these impacts are driven by livestock production which uses nearly 40% of global habitable land area but provides only 18% of calories.¹⁴ These environmental externalities are often underpriced or not priced at all in production. For example, there are no emissions trading systems that currently cover the agricultural sector and producers in most countries do not pay for the full cost of water abstractions. The lack of price signals may reduce incentives for more sustainable management and efficient production.

Furthermore, sustainable market segments represent only a fraction of soft commodities production. Currently, the primary incentive structure for sustainable agricultural production is through sustainability certification premiums. For example, organic-certified goods are estimated to garner a 10-80% price markup compared to comparable non-organic goods.¹⁵ Hence as the second largest global nature market by type, scale and monetary value, critical to our collective survival and our dependent relationship to nature, soft commodities continue to play a crucial role in the development and expansion of nature markets worldwide.

The urgency of addressing the shortcomings of key soft commodity sectors increased dramatically from 2010 to 2019, with the area planted for soy in Brazil expanding by 45%, Indonesian palm oil production rising by 75% and Côte d'Ivoire's cocoa "footprint" growing by 80%.¹⁶ Future projections also make clear that these markets are only set to gain in importance as the global community grapples with the "new normal" of extreme weather events and erratic growing seasons: by 2050, global meat consumption is set to rise by 76%, with soy and palm oil production predicted to grow by 45% and 60%, respectively.¹⁷

At the time of writing, the economic shocks wrought by the COVID-19 pandemic and Russian invasion of Ukraine have exerted pressure to expand commodity production, with food prices expected to rise about 20% in 2022.¹⁸ Such times of crisis often reveal the degree of economic power and political influence wielded by trading companies, in large part resulting from the horizontal concentration and vertical integration of various stages of global value chains.¹⁹ Indeed, the four biggest grain traders – known collectively as "ABCD" (Archer-Daniel-Midland Company [ADM], Bunge, Cargill and Louis Dreyfus Company [LDC]) – have reported record profits accompanied by concerns of profiteering and speculation facilitated by a lack of transparency into grain reserves.²⁰ Watchdog non-governmental organizations (NGOs) have also raised the alarm about intensified deforestation²¹ – in the case of soy, the Monitoring of the Andean Amazon Project (MAAP) has warned that a jump in prices may be responsible for a recrudescence of the direct conversion of the Brazilian Amazon rainforest into soy plantation (skipping entirely over an initial phase as cattle pasture), with 29,000 hectares deforested for this purpose in 2019,²² and an additional 42,000 since 2020.²³

Although the negative impacts of illegal deforestation are more apparent than ever, many companies and financial institutions are ill-equipped to mitigate socioenvironmental risk and promote sustainable growth within soft commodity markets. In its most recent "Forest 500" study, Global Canopy found that 93 of the 150 financial institutions most exposed to deforestation lacked a deforestation policy, despite funding companies with the highest exposure to deforestation risk on the order of \$2.6 trillion.²⁴ Moreover, none of the 350 influential companies surveyed and few of the financial institutions had a "comprehensive approach to human rights."²⁵ Similarly, the Accountability Framework Initiative (AFi) found that only 36% of 675 companies linked to commodity-driven forest loss had public, company-wide no-deforestation or no-conversion policies, and only 13% had policies that aligned with good practice.²⁶ While a majority reported operating a traceability system for at least one commodity, most struggled with significant gaps in their supply chains.²⁷ Finally, as noted by the World Wildlife Fund (WWF), "processors and traders – the only parts of the supply chain that have the power to affect the greatest change – have made the fewest [deforestation] commitments to date."²⁸

An increased awareness of companies' shortcomings has prompted financial institutions to mobilize and demand nature-positive outcomes from the public and private sectors alike. Among the most prominent initiatives are:

Taskforce on Nature-related Financial Disclosures (TNFD): Market-led coalition worth \$19.4 trillion in assets working to develop a framework for managing and disclosing nature-related risks.²⁹

Farm Animal Investment Risk & Return (FAIRR) Initiative: Global investor coalition worth nearly \$12 trillion that has called for G20 countries to disclose specific targets for reductions in greenhouse gas emissions from the agricultural sector.³⁰

Sustainable Commodities' Practitioners' Group (SCPG): 30 financial institutions with over \$8.7 trillion in assets under management and who have committed to "eliminate forest-risk agricultural commodity-driven deforestation activities at the companies in [their] investment portfolios and in [their] financing activities by 2025."³¹

Investors Policy Dialogue on Deforestation (IPDD) Initiative: 62 global investors with \$8.8 trillion under management to promote public policy reforms and regulations that "ensure [the] long-term financial stability of investments" through "sustainable land use and forest management and respect for human rights."³²

PRI-Ceres Investor Initiative for Sustainable Forests (IISF): Aims to raise investor awareness and improve decision-making around the material financial risks of illegal, commodity-driven deforestation in South America, as well as "support investor engagement with portfolio companies to promote increased disclosure and management of deforestation risks in cattle, soy, and other soft commodity supply chains."³³

Network for Greening the Financial System (NGFS): Group of central banks and supervisors that seeks to enhance market transparency and enable the financial system "to manage risks and to mobilize capital for green and low-carbon investments in the broader context of environmentally sustainable development."³⁴

Soft Commodities Compact (SCC): Commitment by 12 banks to finance the transformation of supply chains, and raising industry-wide banking standards.³⁵

Despite the best efforts of these worthy undertakings, negative social and environmental trends and impacts continue to afflict soft commodity markets around the world, and overall investment into "nature-based solutions" falls woefully short of the amount needed to meet climate, biodiversity and land degradation targets.³⁶ Thus, we still lack an answer to the question of what it would mean and look like to fundamentally transform these sectors by implementing a new generation of purposeful nature markets that deliver nature-positive and equitable outcomes. As outlined in the Taskforce white paper, these markets would generate revenue streams that simultaneously attract interest from investors, correctly value nature and its contributions to the sustainability of our economic systems, and equitably remunerate and improve quality of life for the most nature-dependent, including farmers and local and indigenous communities.³⁷ The present scoping paper aims to identify interventions in soft commodities markets that could promote outcomes in line with these principles, as well as understand the roles of investors, financial institutions, governments and consumers in making this change a reality.

1

Methodology



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1 Methodology

The research for this paper commenced with a **literature review** to understand the problems facing and arising from soft commodity markets around the world, as well as past and present efforts to mitigate negative impacts.

We then spoke to a variety of experts from the worlds of food and agriculture, finance, international trade and sustainability:

Dr. Mawuli Coffie

*Feed the Future Ghana Trade
& Investment Activity*

Malik Dasoo

African Climate Foundation

María Fernanda Espinosa

*former President of the United Nations
General Assembly*

Ziad Hamoui

Borderless Alliance

Juliana de Lavor Lopes

Amaggi Group

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*Agricultural Business Chamber
of South Africa*

Devry Boughner Vorwerk

DevryBV Sustainable Strategies

Antonia Wanner

Nestlé

**Anonymous current and former representatives
of agricultural commodity trading companies.**

2

General Context



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2 General Context

Summary

Worsening trends in tropical forest loss have periodically spurred major soft commodity actors to commit to addressing deforestation in relevant supply chains. However, these coalitions inevitably encounter a number of obstacles to meaningful change, and various national and regional governing bodies have therefore begun to seriously consider more stringent supply chain regulations.

The imperative of transforming soft commodity networks is driven home by the fact that the expansion of commercial agriculture represents the main direct cause of tropical forest loss,³⁸ a grim *status quo* sustained by the “failure to internalize the value of forests into global financial systems.”³⁹ According to the Food and Agriculture Organization (FAO), the world lost over 195 million hectares of tropical forest cover between 1990 and 2015, with 76% of that loss occurring in South America, Southeast Asia, and Central and West Africa.⁴⁰

In addition to the previously mentioned efforts from financial institutions and banks, the world’s biggest agricultural trading and processing companies have also made periodic individual and group efforts to improve the sustainability of their commodity supply chains. For instance, the early 2010s saw a resolution from the Consumer Goods Forum (CGF)⁴¹ as well as the New York Declaration on Forests that stated a commitment to eliminating deforestation from key supply chains by 2020, both of which fell short by a wide margin.⁴² In November 2021, ten major companies that deal in key soft commodities came together at the World Leaders’ Summit on Forests and Land Use at the United Nations Climate Change Conference 26 (COP26) to issue a joint statement “committing a sectoral roadmap by COP27 for enhanced supply chain action consistent with a 1.5°C pathway.”⁴³ Some observers received this news with renewed optimism for a number of reasons that appear

to differentiate the pledge from previous declarations.⁴⁴ For example, the commitment is holistic and inclusive in terms of geographic scope, target commodities, supply chain actors (direct and indirect suppliers) and stakeholders (creating the potential for public-private partnerships).⁴⁵ With COP27 approaching in November 2022, time will tell whether the companies are able to put their words into action.

As the World Resources Institute (WRI) has observed, individual companies and coalitions alike face significant challenges. A variety of factors limit the impact of company commitments on deforestation rates:

- Varied, often vague definitions of what qualifies as deforestation-free production or sourcing;
- Inconsistent monitoring and reporting;
- Inadequate incentives, finance, and technical support to producers, particularly smallholders;
- Limited and indirect ability of downstream brands, retailers, and traders to transform commodity production;
- Leakage to places, markets, or actors not covered by commitments;
- Unresolved land conflicts, inconsistent or outmoded regulations, illegal forest conversion, and corrupt allocation of permits in many deforestation fronts.⁴⁶

In the face of these obstacles, various civil society organizations have devised general guidelines and recommendations for companies looking to move towards a forest-positive future. WRI, for its part, highlighted the need for:

- More harmonized commitments, implementation, and reporting;
- Reconciling global standards and local realities;
- Integration of public and private sector approaches.⁴⁷

The Consumer Goods Forum, in turn, identified seven “Levers of Change” to enhance the collective action of the 21 companies (with a collective market value of over \$1.8 trillion) that make up its Forest Positive Coalition of Action:

- Supply Chain Management;
- Jurisdictional Wins (develop portfolio of success stories in strategic locations);
- Forest-Positive Policies;
- Reduce Dependence (use of materials with lower forest risk);
- Demand Shift (in consumers);
- Capital Markets (shift towards conversion-free production);
- Carbon Markets.⁴⁸

Finally, Global Canopy and CDP have provided guidance to financial institutions around soft commodities in particular, with instructions on how to hold companies accountable and even present specific questions to the board regarding:

- Transparency and disclosure;
- Board oversight and management of risk and opportunity;
- Company policies and strength of mitigation strategy;
- Strategy implementation.⁴⁹

Taken together, these resources provide companies and financial institutions with a road-map towards developing more sustainable supply chains and mitigating the worst tendencies of these soft commodity markets.

However, the availability of relevant tools and information does not mean that the necessary changes and private sector reforms will be executed at the pace required to react and respond to the climate crisis. As a result, major Western economies have begun to propose and enact legislation that imposes regulations to curb deforestation and forest degradation arising from domestic consumption and production. In October 2021, two United States senators introduced a bill to create the Fostering Overseas Rule of Law and Environmentally Sound Trade (FOREST) Act, and the following month the United Kingdom passed the Primary Legislation Environment Act.

Perhaps the most significant piece of legislation, though, is the proposed European Union (EU) Deforestation Regulation, which would take effect in mid-2023 and go beyond illegal deforestation to also prohibit the clearing of forests that local laws would otherwise deem legal.⁵⁰ If approved, the regulation would target the most significant drivers of deforestation for EU products (palm oil, soy, wood, cocoa, coffee and beef) and mark December 31, 2020 as the cutoff date for “deforestation-free” properties.⁵¹ Operators and large traders would be required to meet more stringent due diligence requirements (including risk assessment and mitigation), with even stricter enforcement of these obligations in the case of operations in “high-risk” producer countries, as defined by the European Commission.⁵² Many have heralded the Regulation as a landmark piece of legislation for EU supply chains, but it has also met with some critique from civil society organizations. In a recent article, Greenpeace expressed concern that the law fails to cover valuable ecosystems other than forests, and appears to overlook additional commodities that propel tropical forest deforestation.⁵³ With such a large emphasis on environmental considerations, according to Greenpeace, the current proposed version of the Regulation also leaves less room for issues of human rights, “and lets the financial sector off the hook by not imposing due diligence obligations on financial institutions that provide money to companies responsible for deforestation and ecosystem destruction and associated human rights abuses.”⁵⁴

Thus, even with the considerable momentum of political will and civil society mobilization, lacunas still exist in the push to achieve truly nature-positive and equitable markets. In order to understand the dynamics and hurdles with which market reform efforts and interventions must contend, the following sections will take a closer look at three essential and emblematic soft commodity markets in different parts of the world – soy, palm oil and cocoa.

3

Commodity Case Study 1: Soy (Brazil)



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3 Commodity Case Study 1: Soy (Brazil)

Summary

The expansion of the soybean industry in Brazil led to extensive deforestation, and the increasing complexity of the supply chain makes it difficult to meet traceability and sustainability goals. Multiple product-based approaches have largely failed to mitigate the industry's environmental and social impacts in crucial ecosystems like the Amazon rainforest and Cerrado. Recommendations for the financial institutions that fund the sector center around developing internal soy-specific deforestation policies, upholding transparency and disclosure, and assisting investee companies in committing to deforestation- and conversion-free supply chains.

Soybeans are the versatile, edible seeds of the soybean plant, but 77% of the soybeans produced in the world are in fact consumed by livestock in the form of animal feed.⁵⁵ The global production of soy has increased dramatically over the past 60 years, from 20-30 million tons per year in the 1960s⁵⁶ to 360 million tons in the 2018-2019 crop season alone.⁵⁷ Both the supply and demand for soybeans is highly concentrated, with three countries (United States, Brazil and Argentina) producing 80% of the global soybean crop, and China accounting for over 60% of total soy imports.⁵⁸

This growth in production has come at a cost for native ecosystems, with soy directly replacing 8.2 million hectares of forest between 2001 and 2015 globally, 97% of which occurred in South America.⁵⁹ In addition, research has revealed a close relationship between soy expansion and deforestation for pasture in Brazil, through which the adoption of former pastureland for soy production pushes cattle ranchers farther into the forest, where the removal of forest cover leads to an increase in the value of the land.⁶⁰ As WRI notes, although cattle ranching in Brazil attracts more attention as the most significant driver of deforestation in numerical terms, the clearing of forest areas is not necessarily fueled by “direct demand for beef or dairy production but rather due to displacement caused by other crops or speculation.”⁶¹

The complex and dynamic soybean supply chain in Brazil presents significant challenges for achieving traceability and sustainability outcomes. As described by CGF, the chain relies on a complex and shifting set of actors that transport and transform the product at different moments and in different countries, with buyers pushed to “respond to the fluctuating market and price changes.”⁶² Unlike the market for palm oil, characterized by long-term contracts and clear aggregation points, the annual soy crop “passes through several intermediaries before reaching the processing state or the port,” which increases the likelihood that soy from “regularized” plantations gets mixed in the harvest from “irregular” areas.⁶³ The potential for fraud in the Brazilian context is exacerbated by the fact that traders often only require producers to show a self-declared Rural Land Registry (CAR) that may or may not accurately reflect the location of the soy plantation.⁶⁴ These intricacies present significant challenges for the global soybean trade, in which acquisitions from indirect sources represent 22% of the collective purchases,⁶⁵ and only about 5% of global soy production in 2018 received a sustainability certification.⁶⁶

The gaps in the supply chain as well as the severity and scope of the ecological transformations observed in sensitive ecosystems like the Amazon and Cerrado have placed a spotlight on large multinational soy traders like ADM, Amaggi, Bunge, Cargill, China Oil and Foodstuffs Corporation (COFCO), and LDC. Investigations by civil society organizations have consistently reinforced the high level of deforestation risk attached to these companies. For instance, Global Witness has called out Bunge for failing to reduce or mitigate its unparalleled deforestation risk, with a supply chain linked to the clearing of forests in an area “four-fifths the size of Chicago between 2015 and 2018,” and to 16,942 fire alerts in 2020 alone.⁶⁷ Cargill, for its part, was shown by Chain Reaction Research to have the second-highest Cerrado deforestation risk exposure in 2020 (44,644 hectares), accompanied by an elevated risk of experiencing fires within potential buying zones.⁶⁸ Cargill’s sourcing of soy from the states of Pará⁶⁹ and Mato Grosso do Sul⁷⁰ has also sparked concerns about conflict arising from land disputes and encroachment on indigenous territories.

In its Soy Scorecard, WWF assessed the general landscape of large-scale soy production by surveying 22 traders on their commitments made and actions taken to guarantee deforestation-free supply chains that also uphold human rights. Of the nine traders that responded to the survey, seven had committed to deforestation-free soy, but only four extended this pledge to other biomes such as the Cerrado⁷¹ (where soy plantations occupy 10% of the total area, some 20 million hectares).⁷² Moreover, only three of the seven traders had specific target dates for achieving deforestation-free soy, ranging from 2025 to 2030, which in the eyes of WWF “fails to recognize the urgency of the issue.”⁷³ Finally, although seven of the nine respondents expressed support and adherence to principles of human rights and securing the free, prior and informed consent of indigenous peoples and local communities in their supply chains, none required their suppliers to implement the same mechanisms in their respective operations.⁷⁴

In the past thirty years, multiple initiatives have attempted to improve the environmental and social footprint of

the Brazilian soy market, with varying degrees of engagement and effectiveness. The Amazon Soy Moratorium (ASM), implemented in 2006 by the Soy Working Group and renewed multiple times before becoming permanent in 2016, represented the “first major voluntary zero-deforestation agreement achieved in the tropics,” with 90% of companies in the market agreeing “not to purchase soy grown on land deforested after 2006 [later moved to 2008] within the Amazon biome, and also to blacklist farmers using slave labor.”⁷⁵ Sixteen years later, the general consensus is that the ASM did, in fact, contribute to some extent to drastic reductions in the direct conversion of Amazon rainforest into soy plantations.⁷⁶ However, certain observers caution that its impact on Amazon deforestation as a whole should not be overstated, due to shortcomings and loopholes that compromised its effectiveness. One study, for instance, showed that at least 627 soy properties in Mato Grosso conducted illegal deforestation during the ASM, but only 115 were blacklisted by soy traders for violating the agreement, since technically it only applied to the specific part of the property where soy is grown.⁷⁷ Additionally, the ASM failed to consider the unintended consequences of soy plantations occupying former pasturelands that were cleared before 2008. First, while these farmers may be in full compliance with the agreement, no attention is paid to the displaced cattle ranchers who must seek out new forest areas to clear, let alone the land speculators that capitalize on this lucrative opportunity.⁷⁸ Second, the influx of infrastructure to support this burgeoning soy industry indirectly drives deforestation in the region and increases pressure on indigenous and traditional lands that, if not officially demarcated by the Brazilian government, are “sometimes classified as places where soy is free to expand under the ASM.”⁷⁹

Environmental organizations also decried the restriction of the Moratorium on the Amazon biome, especially given the impact of the soy, corn, cotton and livestock industries on the neighboring Cerrado, where half of the native vegetation (one million square kilometers) has been cleared to make way for plantations and pastures.⁸⁰ In 2017, sixty of these organizations joined forces to launch the Cerrado

Manifesto, which called on traders to voluntarily commit to ending deforestation in the biome.⁸¹ Although the manifesto suffered from a lack of specificity regarding which actions should be taken to conserve the native ecosystems and avoid new deforestation,⁸² it gained significant momentum in 2020 when over 160 multinationals publicly expressed their support.⁸³ Ultimately, though, the biggest impediment to the Manifesto's effectiveness has been the largest soy trading companies' decision to forgo the agreement and instead operate in parallel through the Soft Commodities Forum (SCF).

Established in 2018, the SCF is coordinated by the World Business Council for Sustainable Development (WBCSD) and "brings together six major agribusinesses to advance collective action on a conversion-free soy supply chain" – ADM, Bunge, Cargill, COFCO, LDC and Viterro.⁸⁴ The Forum's stated priorities are to develop and implement both a "common framework for reporting and monitoring progress on transparent and traceable supply chains for soy in Brazil's Cerrado region,"⁸⁵ as well as the Farmer First Clusters Initiative, which "proposes financial incentives to encourage farmers to preserve forests, adopt sustainable land use practices and to protect the ecosystem."⁸⁶ On this first point, Chain Reaction Research has expressed concern that, absent a more strictly-worded commitment like the Cerrado Manifesto, "the traders' deforestation policies may be insufficient in mitigating deforestation risk in their supply chains."⁸⁷ On the second, Greenpeace fears that farmers may respond to the traders' abstention from the Manifesto by enjoying the financial compensation for a few years and then withdrawing from the Initiative to use the money to expand their business and, presumably, convert more native vegetation to plantation.⁸⁸ Finally, the sensitive issue of releasing commercial information has led the trading companies to refrain from publicly disclosing the name, size and location of the soybean farms for which they have purportedly achieved 100% traceability in the Cerrado.⁸⁹

Without this transparency, it is difficult to verify the Council's claims of progress in mitigating deforestation in the Cerrado, especially in the face of evidence that points to the contrary. For example, a 2021 Mighty Earth report found that five major traders continued to purchase soy from suppliers engaged in deforestation (and/or their parent groups) even after the August 2020 cut-off date established by the Retail Soy Group (RSG) Roadmap (created via collaboration between prominent European supermarkets and NGOs).⁹⁰ Greenpeace also found that Cargill soy suppliers accounted for 800 square kilometers of deforestation and 12,000 fires between 2015 and 2020,⁹¹ with "people on the ground in Brazil [saying] that there is little sign of any [...] changes being enacted" to meet the company's self-imposed deadline to eliminate deforestation in its supply chains by 2030 (after missing the initial target of 2020).⁹²

The soy industry is projected to grow significantly in the coming decades and business-as-usual practices have set it on a collision course with novel legislation like the EU Deforestation Regulation. Indeed, a Greenpeace exposé revealed that, shortly after COP26, groups representing some of the biggest soy traders lobbied the EU to weaken the law, claiming that it "would not have the desired impact" and that it would instead greatly increase and affect the availability of grains and animal feed.⁹³ According to the groups, it would be unfeasible to implement a "segregated supply chain" of deforestation-free products specifically for the European market, and too many commercial and "confidentiality concerns" abound for the EU to require traders to provide the geolocation for the farm that produced a certain commodity.⁹⁴ In this way, the soy industry's willingness to commit to stringent regulations that seek sustainable and just outcomes remains an open question.

Given that twelve financial institutions provide \$17.2 billion in funding to ADM, Bunge, Cargill, COFCO and LDC, these institutions have a key role to play in ensuring a sustainable and just soybean sector for decades into the future.⁹⁵ Some civil society organizations have issued recommendations for the sector – in its Soy Scorecard, WWF advised these institutions to:

Within their deforestation/conversion or agricultural commodities policy, develop and disclose a soy sector policy or section.

Commit to setting science-based targets for nature/science-based targets for financial institutions.

Uphold high levels of transparency and disclosure.

Commit to engaging and supporting clients/investee companies, in particular small and medium-sized enterprises, to work towards deforestation and conversion-free commodity supply chains, through organizing client outreach, education and capacity-building programmes.

Work together with other investors, aligning messages with other shareholders on deforestation and conversion-free soy/commodities.⁹⁶

CGF⁹⁷ and The Nature Conservancy⁹⁸ have also produced guidelines for the financial sector, but the challenge of how to move beyond value chain- and crop-specific approaches to drive this massive industry in a nature-positive and equitable direction persists. Failures on the international stage to implement broad and comprehensive mandatory human rights and environmental due diligence measures reinforce the Taskforce's search for market-wide solutions.

4

Commodity Case Study 2:

**Palm Oil
(Southeast Asia)**



Taskforce on
**Nature
Markets**

4 Commodity Case Study 2: Palm Oil (Southeast Asia)

Summary

Rising global demand for palm oil resulted in significant deforestation across Indonesia and Malaysia from 2001-2015. These rates have dropped in recent years through a combination of government measures, private sector adherence to No Deforestation, No Peat, No Exploitation (NDPE) policies and the Roundtable on Sustainable Palm Oil (RSPO) certification scheme. However, unreliable sourcing methods and traceability challenges threaten to exacerbate the sector's environmental and social impacts, thus leading civil society organizations to call on financial institutions to develop sector policies, ensure transparency and develop mechanisms for greater inclusion and investment in smallholder farmers.

Since the turn of the 21st century, global use of palm oil has skyrocketed, as more and more industries seek out the edible vegetable oil for use in a wide range of products. Producers have moved rapidly to meet that demand by embracing the efficiency and year-round growing potential of the oil palm tree, with the total footprint of oil palm increasing by 167% between 2001 and 2015 (a worldwide expansion of 22.4 million hectares).⁹⁹ Today, Malaysia and Indonesia produce 86% of the world's palm oil, and the industry employs an estimated 4.3 million people.¹⁰⁰

The staggering growth of the palm oil industry during this period had a significant impact on tropical forests, especially in Southeast Asia – according to WRI, over half of new oil palm plantations replaced forests in Indonesia and Malaysia. However, most of this deforestation occurred between 2001 and 2012, before reaching a record low in 2015 thanks to a series of factors, including lower crude palm oil prices, a 2011 moratorium in Indonesia on new licenses to convert primary forests and peatlands and zero-deforestation commitments from private companies.¹⁰¹ Furthermore, catastrophic forest and peat fires in 2015 that caused \$16 billion in economic losses and compromised air quality¹⁰² also compelled Indonesia to move decisively to reduce unplanned deforestation. This positive trend continued through 2021¹⁰³ and even defied expectations by weathering a dramatic rise in prices during the first years of the COVID-19 pandemic, perhaps in large part thanks to the sheer number of companies (representing 83% of the palm oil refining capacity in Malaysia and Indonesia)¹⁰⁴ that have committed to No Deforestation, No Peat, No Exploitation (NDPE) policies.¹⁰⁵ At the same time, more recent data suggests that these forests are not out of harm's way, with persistently high palm oil prices potentially driving a 43% increase in deforestation across Southeast Asia from the first half of 2021 to the first half of 2022.¹⁰⁶

One key initiative in the effort to reduce deforestation rates is the Roundtable on Sustainable Palm Oil (RSPO), which certifies 19% of global palm oil.¹⁰⁷ Introduced in 2004 and revised in 2018, the RSPO employs the High Carbon Stock approach to “identify areas of land suitable for development and forest areas that merit protection, while securing the rights and livelihoods of communities.”¹⁰⁸ Nonetheless, the scheme continues to face criticism for insufficient enforcement as well as weak protections for peatlands and human rights defenders.¹⁰⁹ As expressed by CGF, a key player in the 2018 reformulation, the market segmentation caused by the RSPO reinforces that “certification is a tool, but not the comprehensive solution the world needs to end deforestation... There is still a demand for commodities from converted land and local economic incentives to continue this practice,

[which] limits our leverage.”¹¹⁰ Other efforts like the Palm Oil Innovation Group have attempted to set rigorous and ambitious standards that go beyond the RSPO, but significant gaps remain in the mitigation of the palm oil industry’s socio-environmental impacts.

Given that palm oil production is projected to increase by four to six times between 2020 and 2050 (from 73.8 million metric tons to 265-447 metric tons), the weak links in the palm oil trade merit more attention than ever.¹¹¹ The modern supply chain has grown increasingly complex over time, as palm oil supplies travel long distances and change hands numerous times “from producers, to processors, traders, consumer goods manufacturers (CGMs) and retailers.”¹¹² Although this scenario might increase the onus on companies to ensure their palm oil is free of environmental and social issues, WWF found that, of the palm oil purchased in 2021 by the 227 largest buyers, only 67% was certified, and just half of those companies had achieved 100% RSPO-certified palm oil.¹¹³ Moreover, many companies continued to opt for the “Mass Balance” sourcing method – which “allows for certified and non-certified ingredients to become mixed during the shipping and manufacturing processes”¹¹⁴ – over the more rigorous “Segregated” or “Identity Preserved” methods.¹¹⁵ Judging from this research, then, it would seem that palm oil buyers still have room to improve in regards to their purchasing practices.

Another complicating factor in the Indonesian context is the comparatively low productivity and traceability of smallholder farmers. These farmers account for a small proportion of overall deforestation, but they nonetheless merit attention given that they produce 38% of palm oil on 45% of the total area for cultivation.¹¹⁶ At the same time that a lack of tenure documentation makes it more difficult for independent smallholders to access finance for intensification, a lack of organization also “hinders collective action to improve productivity and environmental practices.”¹¹⁷ Smallholders’ haphazard integration into the market also makes it harder for com-

panies to monitor the palm oil that originates from smallholder plantations and verify that it is deforestation-free. In some cases, smallholders prefer to sell their produce to intermediary agents in order to avoid contractual commitments to mills (with fixed prices) – as a result, companies usually are only able to trace the products to the mill rather than the individual farmer.¹¹⁸ In other cases, smallholders sell directly to mills that may not be RSPO-certified – indeed, they “do not generally regard certification as a beneficial tool for market access, more likely viewing it as a constraint to accessing mills and selling produce.”¹¹⁹ All of these tendencies increase the chances of “leakage of unsustainable palm oil in Indonesia’s domestic biodiesel market and in countries with less strict import requirements.”¹²⁰ Although deforestation by smallholder farmers appears to be in decline,¹²¹ the segmentation caused by certification schemes and insufficient integration into a more sustainable palm oil market leave the door open for increased deforestation in future years.

In any case, the future of the palm oil industry may be even more decisively influenced by the EU Deforestation Regulation, which, in addition to the mandatory due diligence requirements, would implement a gradual phase-out of palm oil-based fuels by 2030.¹²² Palm oil industry associations have already expressed strong opposition to the law – the EU Palm Oil Alliance, for instance, called for the due diligence requirement to be postponed until 2030, “partly to avoid the impacts of global supply chain disruptions such as ‘the current war in Ukraine and its effects on global food security.’”¹²³ The traders also justified the delay by claiming that smallholder farmers are currently unable to achieve such high levels of traceability and would therefore end up excluded from the sustainable value chain.¹²⁴ Interestingly, some Indonesian farmers dispute the industry’s argument. In March 2022, the Union of Oil Palm Smallholders issued a response that described the goal of smallholder traceability as financially and practically viable, and called the traders’ procrastination “appalling.”¹²⁵

Amidst this complex web of stakeholders, some civil society organizations have published recommendations for financial institutions when dealing with the palm oil sector. As part of its Palm Oil Buyers scorecard, WWF advised institutions to:

- Participate in action-oriented initiatives and advocacy (RSPO, TCFD [Task Force on Climate-Related Financial Disclosures], PRI [Principles for Responsible Investment], etc.).
- Develop sector policies and raise expectations towards clients and investee companies (including banks).
- Increase transparency.¹²⁶

Climate Focus, for its part, recommended that institutions prioritize:

- Understanding the differentiated financial needs of independent smallholders for finance
- Opening the opportunity for blended finance to derisking smallholder engagement projects and to ensure the financial structure for opportunities like CPO [Commodity Pool Operator] Fund can work
- Providing loans and lowering interest rates to independent smallholders engaging in sustainability actions
- Including support to smallholders as a condition for investment in the palm oil sector¹

¹ Bakhtary, Haseeb, et al. *Promoting Sustainable Oil Palm Production by Independent Smallholders in Indonesia: Perspectives from Non-State Actors*. Climate Focus, 23 Feb. 2021, p. 11, https://climatefocus.com/wp-content/uploads/2022/06/Indonesian-Palm-Oil-Smallholders_Briefing-Paper.pdf.

5

Commodity Case Study 3: Cocoa (West Africa)



Taskforce on
**Nature
Markets**

5 Commodity Case Study 3: Palm Oil (Southeast Asia)

Summary

Cocoa-driven deforestation in West Africa is largely due to a combination of poverty and social vulnerability whereby smallholder farmers struggle to increase land productivity and issues of modern slavery and child labor persist into the 21st century. The promising, product-focused Cocoa and Forests Initiative (CFI) has had a limited impact on deforestation and smallholder empowerment. As a result, civil society organizations have advocated for companies to improve traceability, increase information-sharing between the public and private sectors and increase producer prices so that they provide a living income.

Between 1.8 to 2 million West African smallholder farmers¹²⁷ produce 75% of the world's cocoa, a powder made from roasted and ground cacao seeds that is used extensively in the confectionary, food and beverage industries.¹²⁸ Côte d'Ivoire and Ghana account for the majority of that production, and both have experienced dramatic forest loss in the last 60 years – 94% and 80%, respectively, with cocoa replacing between one-quarter to one-third of that area.¹²⁹ In Côte d'Ivoire, cocoa plantations are directly tied to deforestation in national parks and other protected natural areas – in 2019, the country's Forest Development Corporation estimated that 40% of domestic cocoa originated in protected areas, with grave consequences for biodiversity and primate populations in particular.¹³⁰ In a significant investigation from 2017, Mighty Earth found evidence of top traders like Barry Callebaut, Cargill and Olam (which control around two-thirds of the global market)¹³¹ buying cocoa grown in protected areas, and none of the 70 chocolate companies with which they shared their findings “denied sourcing cocoa from protected areas or disputed any of the facts [they] presented.”¹³²

Unlike in the Brazilian Cerrado, where industrial-scale soybean farming fueled the conversion of over 1.14 million hectares of native vegetation between 2010 and 2020,¹³³ cocoa-driven deforestation in West Africa is largely attributed to low-income, smallholder farmers who struggle with low productivity and limited resources to invest in sustainable agricultural practices that would enable them to improve land management (e.g. move away from “full-sun” systems that deplete soil nutrients over time),¹³⁴ adapt to climate change, and avoid viral insect-borne crop afflictions like the cocoa swollen shoot virus disease.¹³⁵ As of 2020, farmers were “among the lowest earners from a ton of sold cocoa – accounting for just 6.6% of the value of the final sale,” compared to 44% for retailers and 352% for manufacturers.¹³⁶ Under these adverse conditions, farmers understandably seek to increase production by either expanding their existing areas or obtaining land titles for unclaimed forest.¹³⁷ A Climate Focus survey found that a majority of farmers in Ghana (80%) and Côte d'Ivoire (70%) identified farm expansion as their top investment priority.¹³⁸

Poverty and precarious working conditions have also produced negative social impacts, especially the presence of modern slavery and child labor throughout the cocoa industry.¹³⁹ Notwithstanding a cocoa sector pledge to reduce the worst types of child labor by 70% by 2020, a report from that year found that 1.56 million children were subjected to child labor for cocoa production in Côte d'Ivoire and Ghana, 95% whom were exposed to dangerous tools or harmful pesticides (which constitutes “hazardous child labor”).¹⁴⁰

Thus, small stakeholder engagement is key to addressing the negative environmental and social impacts of the cocoa industry in West Africa. According to IDH Sustainable Trade, the sector faces a number of obstacles and barriers to change, including a “lack of common vision, definitions and standards for traceability,” “limited traceability in companies’ indirect supply chains and overall weak first mile traceability,” underuse of technological innovations to enhance traceability and ensure reliability, and insufficient attention to “systems that empower farmers and producer organizations, such as feedback loops and mechanisms that ensure ownership of sustainability data and return on efforts for cocoa farmers and their organizations.”¹⁴¹ Climate Focus also highlights that efforts by buyers to provide smallholders with “packages of interventions and services [...] are unlikely to be transformative if they do not address poverty alleviation alongside efforts to curb deforestation.”¹⁴²

The most significant formal agreement to effect positive change in the West African cocoa supply chain is the 2017 Cocoa and Forests Initiative (CFI), through which the governments of Côte D’Ivoire and Ghana collaborate with top cocoa and chocolate companies to “promote sustainable smallholder cocoa production, social inclusion and forest protection.”¹⁴³ Among the Initiative’s priorities are:

- Conservation of National Parks and forested land, as well as restoration of forests that have been degraded by cocoa farm encroachment.
- Sustainable intensification and diversification of income in order to increase farmers’ yields and livelihood, to grow “more cocoa on less land” and thereby reduce pressure on forests.
- Engagement and empowerment of cocoa-growing communities...[via] mitigation of the social impacts and risks of land-use changes on affected cocoa farmers and their communities.¹⁴⁴

According to Climate Focus, the Initiative’s potential to transform the environmental footprint of the cocoa industry lies in its focus on pre-competitive industry coordination and ability to be implemented at scale.¹⁴⁵ However, a 2022 Mighty Earth study revealed limited success in reducing deforestation, with average countrywide tree loss in Ghana and Côte d’Ivoire in 2020 100-300% higher than in previous decades, and a persistent trend of deforestation and cocoa expansion in protected areas.¹⁴⁶ One possible explanation is that the Initiative falls short in engaging a wide variety of stakeholders beyond the private companies, including producer countries that may be reluctant to openly confront the scale of negative social and environmental trends. As highlighted by Climate Focus, “since companies have limited interest in addressing larger systemic issues related to poor governance, poverty and human development where these go beyond their business interests, close cooperation between public agencies, donors and non-governmental organizations is needed.”¹⁴⁷

In the face of these challenges, IDH Sustainable Trade issued a series of recommendations for the West African cocoa sector:

- Development of standardized definitions and metrics;
- Improving first mile traceability;
- Transparency of and minimal requirements for the indirect cocoa supply chains;
- Traceability systems empowering farmers and their organizations;
- Harmonizing and sharing data and producing sustainability insights;
- Cross-commodity approaches at jurisdiction-level... to prevent displacement of issues across commodities.¹⁴⁸

Based on the findings of its 2022 CFI report, Mighty Earth also called for information-sharing between chocolate companies, cocoa traders and government regarding cocoa supply chains, combined with the use of satellite imagery to effectively monitor deforestation.¹⁴⁹ The organization demanded that the Initiative partners set a concrete goal to eliminate new deforestation by 2024, and that private sector actors support efforts by cocoa cooperatives and government agencies to help smallholders move away from monoculture farming, with the aim of sourcing at least half of their cocoa from agroforestry by 2025.¹⁵⁰

Judging by the response of farmers in Côte D'Ivoire to the EU Deforestation Regulation, smallholders will certainly play a vital role in determining whether the cocoa industry can achieve these objectives. In contrast to the reluctance of large industry groups to increase transparency and traceability, nearly 35,000 smallholder farmers in that country signed onto a public letter that applauded the law as going beyond just environmental conservation to promote "social equity and an opportunity to put in place mechanisms that allow producers, the first actors in the supply chain, to make a decent living from their work."¹⁵¹

6

Regional Case Study:

**Does AfCFTA present fertile
opportunities for African soft
commodity markets?**



Taskforce on
**Nature
Markets**

6 Regional Case Study: Does AfCFTA present fertile opportunities for African soft commodity markets?

Summary

In many African countries, the agricultural sector is seen as a high-risk sector. The impacts of climate change, combined with insufficient infrastructure and limited access of small and medium-sized enterprises to credit and loans, make it difficult for countries to add value to soft commodities and compete on the global stage, and leave them dangerously vulnerable to market shocks. Regional economic communities and initiatives like the African Continental Free Trade Area (AfCFTA) represent landmark efforts to facilitate intra-regional trade, but significant challenges remain for nature-positive and equitable growth.

Beyond the West African cocoa industry, Africa as a whole represents a fertile ground for interventions that seek to maximize the potential of commodity markets to achieve positive environmental and social outcomes. Apart from a few standouts like Egypt and South Africa, agriculture on the continent is characterized by underdevelopment, a disproportionate emphasis on cash crops at the expense of staple foods, and a persistent struggle of local industries to add value before exporting soft commodities to global markets (e.g. despite cocoa's status as a key export, many growers have never tasted chocolate).¹⁵² That being said, as noted by Global Trade Review, African countries do not lack for apparent "in-built advantages" such as extensive arable land, a growing population, lower costs of capital expenditure (capex) for industrial plants and lower labor costs.¹⁵³ In terms of ESG, according to one trade expert interviewed for this paper, the "Environmental" dimension is also generally in better shape than in other parts of the world. For instance, low fertilizer use (less than 10% of the global average)¹⁵⁴ means that pollution runoff rarely becomes an issue, limited irrigation (6% of the total cultivated area)¹⁵⁵ has preserved groundwater reserves,¹⁵⁶ and the continent as a whole accounts for only 3.8% of global greenhouse gas emissions.¹⁵⁷ With Africa's agriculture and agribusiness markets projected to expand to \$1 trillion by 2030, the region has a unique opportunity to increase productivity, mitigate deforestation, enhance food security and become more resilient to the effects of climate change.

It is worth noting that national governments have mobilized in significant ways to accelerate growth by stimulating intra-African agricultural trade, which has remained below 20% (compared to over 60% in Asia and Europe).¹⁵⁸ In 2014, the Malabo Declaration set an ambitious goal of tripling intra-African trade by 2025,¹⁵⁹ and regional economic communities (RECs) such as the East African Community (EAC) and the Economic Community of West African States (ECOWAS) have sought to facilitate regional economic integration. The African Continental Free Trade Area (AfCFTA), in turn, represents a landmark initiative to liberalize and subsequently remove tariffs that could generate billions of dollars in welfare gains and fuel the diversification and industrialization of national economies.¹⁶⁰ The experts interviewed for this paper lauded the goal of breaking down borders and barriers to trade, but emphasized that only time will tell if the somewhat idealistic discourse can be effectively put into practice. Indeed, as noted by the FAO, the AfCFTA is by no means immune from entrenched obstacles to development, including "country disparities in levels of development and economic integration, vast distances between markets, multiple RECs with inconsistent and conflicting regulations and standards, as well as infra-

structure and connectivity problems.”¹⁶¹ Additionally, some experts worry that the AfCFTA’s “limited environmental language” may result in a drive for development that comes at the expense of biodiversity protection and conservation.¹⁶²

Despite these efforts, the FAO expects most countries to remain net importers of agricultural products from outside of Africa for at least the next decade,¹⁶³ and simulations incorporating climate considerations (pests, drought, floods, etc.) produce an even more dire prognosis in which Africa manages to meet only 13% of its food needs by 2050.¹⁶⁴ What’s more, African countries will need to contend with a variety of structural challenges to the near-future push for sustainable and inclusive growth and development. For one thing, insufficient water, roads and telecommunications infrastructure is a major inhibitor of economic growth (by 2%, according to some estimates), and lowers annual productivity by up to 40%.¹⁶⁵ As one interviewee highlighted, inadequate cold storage facilities also contribute to losses of 30-40% before crops reach the market.¹⁶⁶

These bottlenecks and inefficiencies make it difficult for African countries to reap the true economic rewards of crucial value chains, diversify beyond primary commodity exports and become less vulnerable to international price, supply and demand shocks.¹⁶⁷ In Kenya, for instance, the Russia-Ukraine conflict has fueled inflation (7.1% in May 2022) and high prices that will “reduce GDP growth and increase poverty rates in the country, putting an estimated 1.4 million additional people below the poverty line.”¹⁶⁸ The fact that over half of this GDP loss is “driven primarily by higher fertilizer prices and the associated negative productivity effect from farmers’ reduced use” drives home the importance of African countries expanding their domestic production of agricultural inputs and reducing their dependence on international markets.¹⁶⁹

Beyond effective government action and public policymaking, however, the private sector has a central role in promoting more resilient and diverse food systems in Africa. According to the African Development Bank, between 315 to 400 billion dollars would be required to transform strategic value chains from 2016 to 2025.¹⁷⁰ As it stands, however, only 10% of African farmers have access to credit,¹⁷¹ and the International Finance Corporation estimated an annual unmet financing need of \$416 billion across 50 million formal micro, small, and medium-sized enterprises.¹⁷² As of 2016, the agricultural sector received only 4.8% of total annual lending from commercial banks,¹⁷³ and average lending to the primary sector consistently comes under 1% of GDP.¹⁷⁴ Even when farmers and agricultural businesses are approved for credit, it often comes with prohibitively high interest rates (up to 30% in Ghana, according to one interviewee) and significant collateral requirements that jeopardize their ability to compete with goods produced in other parts of the world.

A major driver of these trends is the perceived risk of lending to smallholder farmers and small and medium-sized enterprises (SMEs), amidst weak policy and regulatory environments and ambiguous property rights and land tenure systems.¹⁷⁵ In order to address these challenging circumstances, a number of civil society organizations have issued recommendations for financial institutions. In its 2021 *Framework for Boosting Intra-African Trade in Agricultural Commodities and Services*, the FAO encouraged these institutions to “develop and operationalise value chain and structured trade finance schemes” in order to improve access to loans and the increase the amount of credit provided to relevant economic actors.¹⁷⁶ They also called for an “enabling environment for financial service companies to supply export credit and guarantees for pre-shipment and post-shipment trade

finance,” and reinforce the need to “improve interconnected cross-border payments systems and e-commerce platforms.”¹⁷⁷

The European Investment Bank, for its part, argues that the risks of lending to the sector can be mitigated through agricultural value chain financing, which will involve a coordinated effort between the public and private sectors centered around “getting the right expertise and partners, creating the right structures and procedures, tailoring financial products to the specific needs of farming activities, the upstream and downstream sectors of agriculture, training farmers and building trust, and fostering the smart use of digital solutions.”¹⁷⁸

Finally, the United Nations Conference on Trade and Development (UNCTAD) looks beyond the traditional banking sector to highlight the contributions of emerging innovations towards a more inclusive and resource-efficient financial system.¹⁷⁹ Among these mechanisms are guarantee schemes, “private equity, venture capital, business angels and financial technology.”¹⁸⁰

In sum, significant coordinated action from both the public and private sectors will be crucial for African soft commodity markets to reach their full potential in terms of achieving nature-positive and socially equitable outcomes alongside increased productivity and technological sophistication.

7

Interview Findings



Taskforce on
**Nature
Markets**

7 Interview Findings

OPPORTUNITIES

The interviews with current and former trader executives and subject-area experts echoed the challenging circumstances outlined in the previous sections of this paper. To a certain extent, soft commodity markets are inherently resistant to transformative change, given their liquidity, fungibility and core emphasis on industry-wide price discovery. In order to arrive at a high level of standardization, companies hone in on monoculture agriculture that delivers to a very generic specification, and eschew products with any semblance of excess (real or perceived added cost), such as sustainable production methods. Under these conditions, one of the only ways to make a difference is to pay a premium for certified goods. However, buyers are not always willing to pay a higher price. The interviewees agreed that the private sector needs to take leadership on this issue in the face of inconsistent commitments from federal governments and presented a number of courses of action moving forward.

A Corporate and Market Governance

Financial institutions can also play key trans-jurisdictional roles in **holding companies accountable** for their commitments to sustainability and human rights and requiring them to deliver transparent results on risk identification and mitigation via comprehensive due diligence processes. However, verifying whether companies are taking truly meaningful steps towards environmental and social responsibility is no small task, requiring close analysis of annual reports and the robustness of KPIs. Indeed, **tying executive compensation to environmental targets** (reduced deforestation, etc.) may be the easiest starting point for demanding accountability. **Green bonds** represent another opportunity for financial institutions to put pressure on companies, as long as the penalties (i.e., increased interest rates) for missed targets are severe enough to avoid greenwashing.

One interviewee echoed this call for accountability by stressing the need for a

global regulatory framework that would require companies to adhere to more rigorous criteria for proving that their value chains are free from illegal commodities (e.g., “blood diamonds”). Moreover, this framework could simplify the convoluted landscape of platforms and initiatives and streamline the process of ensuring transparency and traceability from trading companies. In their opinion, the Common Code for the Coffee Community (4C) represents a useful example of how a Code of Conduct can promote economic, social and environmental sustainability in soft commodities markets.¹⁸¹

In the African context, one expert suggested that financial institutions could focus their governance and accountability efforts on **suppliers of agricultural inputs** (Bayer, Corteva, Syngenta) and machinery (Case IH, John Deere), given the amount of leverage they wield in the market.

B Commodity Market Speculation & Concentration

According to one expert, civil society organizations have a role to play in **lobbying competition authorities** (e.g., South Africa's Department of Trade Industry and Competition) to require large traders to open up access to the real-time information that currently enables them to manipulate the food system via speculation in the commodity futures market. With access to reliable information around commodity prices and the export landscape, farmers

and SMEs could gain leverage and take better advantage of business opportunities and regulators could more effectively prevent price-gouging across the value chain.

Greater transparency around mergers and acquisitions between commodity companies would also provide greater oversight of competitive dynamics in food systems and mitigate the worst effects of **concentrated market power** and the abuse thereof.

C Insurance Companies & Lenders

A few interviewees argued that there is a case to be made for **insurance companies and lenders** to refrain from insuring companies that fail to comply with expected standards or fulfill climate-related commitments.

However, proponents of this approach would need to carefully evaluate the legal and political implications – if insurance companies begin to act alone absent public policy reforms, the resulting controversy could undermine the broader effort to address climate change in finance.

D New Incentives

Interviewees also proposed the development of **new incentives** to push soft commodities markets in a more nature-positive and equitable direction. For instance, a tiered tariff structure could price interventions into the market in such a way as to reward companies that meet certain criteria while also avoiding the backlash that would be incurred by a ban or hard stop.

Multilateral financial institutions also have the regulatory power to transform lending conditionalities into incentive mechanisms that reward traceability, transparency and data sharing with debt relief or debt-for-nature swaps.

Furthermore, **niche contracts made by large exchanges** also have the potential to establish a new type of relationship between funders and traders that could gain depth and relevance in the marketplace over time.

In order to tackle key questions such as how to facilitate the migration of liquidity into these novel arrangements, financial institutions could identify and **support strategic growth opportunities** that benefit farmers and sustainably improve soil

quality and yields. In the case of regenerative agriculture, for example, farmers must invest a considerable amount of money and resources into migrating away from industrial agriculture, and have to wait several growing seasons before achieving the full effectiveness of these alternative methods. Under these conditions, funding from activist investors and NGOs can make a decisive impact in convincing farmers to transition to regenerative agriculture or adopt more sustainable approaches like agroforestry and investing in the social bioeconomy.

However, as noted by the International Panel of Experts on Sustainable Food Systems (IPES-Food), ambiguity and confusion around these increasingly common terms have raised concerns of “corporate greenwashing.”¹⁸² Financial institutions should therefore take care to verify that their supported initiatives effectively recognize “the intersection between environmental sustainability and social justice and... how [marginalized groups] feature in just transitions to more sustainable futures.”¹⁸³

E Commodity-specific Coalitions

In addition to climate clubs, another interviewee highlighted the potential for commodity-producing countries to join forces and establish “**coalitions**” that provide greater leverage with the trading companies in balancing more favorable prices with effective supply management and enforcing robust social and environmental standards. These organizations could either focus on **specific products** across regions of the world (e.g., a Cocoa

Coalition involving countries like Ecuador, Peru, Venezuela, Côte D’Ivoire and Ghana), or take the form of broader “**nature clubs**” that tackle various issues and include a soft commodities sub-committee. This effort would require the **mobilization of multilateral institutions** like the World Trade Organization Committee on Trade and Environment to advocate and support producer countries.

F Smallholder Access to Credit

In order to increase smallholder farmers’ access to credit, banks could offer **preferential interest rates** to farmers employing specific nature-positive growing methods. Central banks, in turn, could then offer **lower deposit rates** and other benefits to banks that increase their lending to agricultural businesses.

SME access to finance could also be strengthened through **increased market alignment**, whereby financial institutions provide targeted products for different types of businesses and service providers in agricultural value chains, and there is a clear understanding between both parties regarding the expectations for product development. This effort could also involve the creation of databases that lenders could use to learn more about a given SME’s operations and priorities.

Novel types of financial institutions and arrangements can also promote smallhold-

er farmer inclusion by allocating “**patient capital**” to improvements in technical capacity and added value that balances risk and reward by recognizing the gradual process of reaching profitability.

However, as noted by another expert, SMEs tend to be less familiar with novel financial mechanisms like equity, capital markets, guarantee schemes and challenge funds, which indicates the need for **education and awareness-raising** around these topics. Furthermore, extensive **empirical data collection** (i.e., beyond specific anecdotes or economic models) on the benefits of agroforestry and regenerative agriculture – namely, reduced costs and increased resilience to value chain shocks – would greatly contribute to informing public and private sector actors alike about the value of investing in these productive strategies and helping producers manage diverse risks in the face of the climate crisis.

G Technological Innovation and Infrastructure Improvements

On the African continent (though these considerations are also relevant for other regions like Latin America and Southeast Asia), financial institutions should **support technological innovation and infrastructure improvements** that propel economic growth and positive social outcomes. According to one expert, investment finance can encourage the adoption of renewable energy in improving cold storage facilities (thereby reducing post-harvest losses and food waste), as well as the use of cross-cutting technologies by producers and traders alike to resolve inefficiencies and enhance solutions.

The financial sector cannot achieve all of this alone, however, which raises the need for **interplay between the public and private sectors**, thus echoing the recommendations from WRI and other civil society organizations.¹⁸⁴ On the one hand, national governments and regional coalitions like ECOWAS must provide favorable conditions under which products meet sanitary and trade requirements, effectively enforce existing legislation and standards, adequately train agricultural extension officers and resolve bottleneck issues such as land reform and the protection of private property rights (highlighted by UNCT-

AD as a key factor in export diversification).¹⁸⁵They also need to urgently overhaul road, water, and port infrastructure in order to guarantee competitiveness and reduce some of the perceived risk in lending to the agricultural sector. On the other hand,

like-minded companies could form transnational networks that aim to restructure commodity markets in which sustainable production – rather than simply arriving at the lowest possible price – is the top priority.

H New Standards and Models

Another strategy would be to create **new standards and models** that ensure equitable return for producers by detaching commodity prices from futures prices. An example of this is Mercaris, a service that “provides up-to-date, accurate information on market conditions for organic and non-GMO commodities,” and operates a “trading platform [that] allows buyers and sellers to meet on-line and trade physical commodities.”¹⁸⁶ Schemes like the Living Income Differential (LID) in Ghana also represent an alternative approach for guaranteeing premiums and minimum prices that provide producers with a living income.

According to interviewees, attempts to enact these types of standards are bound to

face significant pushback given that they could decrease or eliminate the advantage traders and non-commercial actors have in terms of access to information, hedging and speculation. Furthermore, opponents could argue that they represent more of a subjective preference rather than quality benchmark or health and sanitation safeguard.

Of course, the size and scope of the impacts of climate change on human and animal well-being would appear to contribute to the case for embedding new socioenvironmental standards into commodity markets. Even in the best of circumstances, though, this would appear to be an uphill battle.

I Climate Clubs

Another avenue of action would be to implement a private-sector version of Yale Professor and Nobel Prize winner William Nordhaus’ concept of a **Climate Club**, in which countries “jointly set ambitious [emissions] targets and exempt each other from climate-related trade tariffs that non-mem-

bers would be subject to.”¹⁸⁷ Under this scenario, a **civil society consortium** of banks, agtech and NGOs with sufficient clout, capital and scale could become a major force in creating incentives that catalyze positive change in commodity markets.

J Fundamental Change

The first of these approaches aims to enact **fundamental change**, without waiting for or expecting existing commodity markets to become the conduit driving these transformations. This perspective echoes an IPES-Food report which argues that extreme concentration and consolidation across the agri-food sector “reinforce the industrial food and farming model, exacerbating its social and environmental fallout and aggravating existing power imbalances,” and that “dominant firms have become too big to feed humanity sustainably, too big to operate on equitable terms with other food system actors, and too big to drive the types of innovation we need.”¹⁸⁸

This scenario would rely on an interplay between:

Generation Z and millennial consumers that demand private sector accountability on climate change

Agtech companies and venture capital that legitimately want to change the future and respond to consumer signals

Financial institutions looking to back companies that can give them equity return by matching consumer-led demand.

This solution would also include the **strengthening of decentralized and local supply chains** that distribute and exchange goods on a smaller scale and in innovative ways, while simultaneously lowering carbon emissions.

Despite its worthy goals, however, this approach suffers from a lack of clarity on how voluntary markets could achieve standards in the absence of a regulated commodity exchange. It also places an undue burden on consumers that could ultimately undermine the pressure on traders to clean up their act. For example, absent a massive coordinated effort to revolutionize consumer demand, companies could resist commodity market reforms by pointing out that consumers continue to purchase the conventional goods.

CHALLENGES

A China

China's **outsized demand and influence** in these markets could threaten the ultimate success of efforts to change the behavior of trading companies and increase corporate accountability. In other words, if COFCO is comparatively lax in its adherence to sustainability criteria when purchasing commodities for shipment to China, this could create a race to the bottom in which other players take measures to avoid losing market share. Farmers, in turn, would have little incentive to preserve rainforests and other critical ecosystems if they felt certain that China is willing to buy their products.

As the expert on African agriculture noted, though, China's **increasing focus on**

self-sufficiency also has the potential to upset global soybean markets to an unprecedented degree. If the country manages to meet its goal of increasing soybean production by 40% by 2025,¹⁸⁹ farmers and trading companies could be faced with a precipitous decline in demand for Brazilian soy, and it is difficult to predict whether this would play in favor of or against the push for market reform.

Similarly, China's interest in "**future foods**" like cultivated meat and plant-based eggs also has the potential to catalyze a significant shift in worldwide demand for animal protein.¹⁹⁰

B Geopolitical Shocks

Geopolitical shocks will also test the resilience of any reforms that do manage to take hold. As mentioned previously, the 2022 Russian invasion of Ukraine has prompted some trading companies to call for a "time-out" on climate goals and environmental regulations in order to ensure global food security and avoid any negative impacts to commodity production. According to interviewees, the **opportunistic calls** to expand farmland via relief on conservation area restrictions threaten to crowd out the real innovations that can

occur in these critical moments (particularly in regards to the Global South), and perpetuate an industrial food and farming system that lurches from crisis to crisis by building up redundant capacity (dead assets). At the same time, governments and financial institutions can seize this opportunity to make policy decisions and dedicate venture capital and other assets to more productive uses so as to both meet the urgent humanitarian crisis and continue to make progress on climate change.

C Quality of Public Data on Land Titles and Environmental Restrictions

The interview with the current trader representative suggested that a few factors may limit the ability of financial institutions to be drivers of positive and lasting change in soft commodities markets. For instance, **unreliable or insufficient public data** may interfere with calls for enhanced traceability from trading companies. In the Brazilian soy market, trading companies must find a balance between evaluating risk and capitalizing on fleeting market opportunities, even as they contend with "le-

gal insecurity" arising from shortcomings in the government's rural land registry and embargo databases. According to the representative, embargo notifications are sometimes added to the database years after the fact, meaning that a producer may not realize that the land they bought or sold cannot be used for agriculture. In other cases where an embargo applies to a specific area within a larger rural property, the database does not always contain information on the exact location of that

area. This leads to a strained relationship in which the trading company seeks to avoid unduly penalizing its producers, while also minimizing its exposure to legal consequences. As the representative acknowledged, technological advances in satellite

imagery have certainly yielded more robust information on producer compliance, but the issues with public data continue to affect the ability of companies to manage and mitigate social and environmental risk.

D Financial Sector's Level of Preparedness

The representative's interactions with financial institutions in recent years raise important questions about the sector's **level of preparedness** (or lack thereof) in calling for reforms in soft commodity markets. Whereas these institutions generally view the soy sector as a risk, some are more equipped than others to evaluate that risk, establish rankings, or simply approach traders with questions and stipulations that could push companies in a more nature-positive direction. When financial institutions lack the motivation or personnel to effectively understand how agribusiness operates in a given country, the

intricacies of different traceability methodologies (e.g. of direct vs. indirect suppliers), or the actual content of reporting frameworks and initiatives (TNFD, etc.), they lose credibility and undermine their arguments for the company to implement changes or commit to certain goals or agreements (especially those that the institution itself has not adopted). Under these circumstances, the financial institutions' lack of rigor and preparation would ultimately tend to contribute to the discrediting of ESG as a concept and mission.

8

Final Considerations



Taskforce on
**Nature
Markets**

8 Final Considerations

This paper explored the general state of soft commodity markets and focused on three specific commodities as well as the continent of Africa in order to illustrate the dynamics and forces behind the urgent challenge to make these markets more nature-positive and socially equitable.

Conversations with experts yielded a variety of insights into both the opportunities for change and roadblocks to progress. Their comments and suggestions produced the following **key** actions for consideration by the Taskforce:

1 Pressure banks, investors and insurance companies to improve market governance

The Taskforce could call out and put pressure on banks, investors and insurance companies that lend to companies whose practices and operations exacerbate or perpetuate environmental and social issues around the world. For instance, these institutions could be challenged to demonstrate whether they have a pathway for drawdown from fossil fuels, or a programmatic plan to lend to solutions that increase supply chain transparency.

The Taskforce could also urge financial institutions to demand genuine transparency and accountability from investee companies through a combination of 1) enhanced analysis of annual reports and KPIs and 2) meaningful measures like tying executive compensation to the achievement of environmental and social targets.

In addition to holding institutions accountable for their investee companies, the Taskforce could also advocate for the rigorous incorporation of accurate and appropriate nature-based risk evaluations into trading contracts, insurance conditions and loan requirements. This advocacy could take the form of contributions to the ongoing development of the TNFD framework.

2 Mobilize cooperative frameworks to promote proper commodity pricing

The Taskforce could draw on the concepts of Climate Clubs and commodity-specific coalitions to organize the creation of cooperative frameworks through which countries systematically set commodity prices according to the real consequences for nature. The standards implemented by such price-pooling cooperatives could potentially raise the cost of nature-negative industry practices to an extent that incentivizes producers, traders and distributors to change their behavior.

3 Address the high levels of consolidation in soft commodity sectors

In the wake of significant geopolitical shocks and market upheaval, and as trading companies log record profits and attract controversy around commodity speculation, The Taskforce could lobby for increased oversight of horizontal and vertical consolidation in key soft commodity sectors. Among the ultimate goals of this effort would be to: 1) weaken the political influence of large trading companies, 2) create a more level playing field for farmers and SMEs, 3) stimulate innovations in technology and supply chain structures and 4) mitigate distorted prices due to commodity speculation.

Given the transnational scope and reach of the companies in question, the Taskforce would have to evaluate the types of monetary and antitrust authorities needed to address consolidation in a decisive and sustainable fashion. It might consider building on the work of iPES FOOD, which called for “various intergovernmental bodies [to] monitor the impacts of increased concentration at various levels,” and for the “development of a UN Treaty on Competition that directly addresses the differing needs and concerns of all States, building on UNCTAD’s (UN Conference on Trade and Development) Model Law on Competition Policy and the Set of Multilaterally Agreed Equitable Control of Restrictive Business Practices.”¹⁹¹

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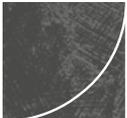
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About NATURE FINANCE

NatureFinance is committed to aligning global finance with nature positive, equitable outcomes.

The core mission of NatureFinance is to accelerate the alignment of global finance with equitable, nature positive outcomes. We do this by shaping the many dimensions, actors and change pathways at the nature-finance nexus.

How we make change:



Nature Markets: shaping principles-based nature markets by increasing awareness, innovations and better governance of nature-linked markets including nature credits and soft commodity markets.



Nature Liability: extending the liabilities of financial institutions for nature outcomes, including the application of anti-money laundering rules to break the links between investment and nature crimes.



Nature Data & Disclosure: Increasing the quality and quantity of nature data, risk assessment and transparency across financial markets to enable integrated assessments of nature-climate risks and impacts.



Sovereign Debt: Engaging market actors, and governing institutions in efforts to place nature in the world's sovereign debt markets, including scaling the issuance of sustainability performance-linked sovereign bonds.



Nature Investment: Creating new nature focused investment opportunities that address climate, food security, equity and broader sustainable development goals.

For more information and publications, visit www.naturefinance.net

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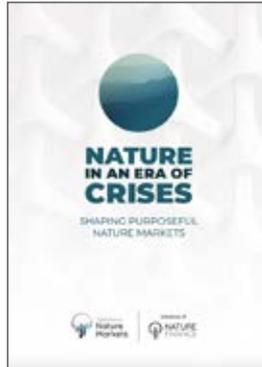
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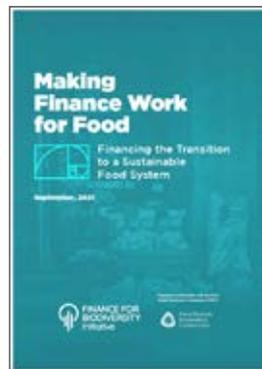
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