THE ENGINE ROOM

Regnskogfondet
RAINFOREST FOUNDATION NORWAY

Rainforest protection and responsible investment

A quick-start guide to improving companies' behaviour in rainforests by influencing investors

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Introduction

In many countries, companies damage forest ecosystems, take over areas that belong to local communities and cut down areas of forest illegally. Changing their behaviour is crucial to protecting forests and forest communities' rights.

For civil society organisations, one way to do this is by demonstrating to investors (organisations or people that invest large amounts of money in companies) that companies are acting improperly.

This quick-start guide suggests ways that civil society organisations can use the information they collect to influence those investors. This is not a simple process – but it has the potential to make real changes in the ways companies act.

Who is this for?

This guide is a very simple introduction to socially responsible investment (SRI). It is designed for civil society organisations that don't know how SRI works, and are interested in trying to use the data they collect to influence investors' decisions.[1]

What this guide does

The guide:

- introduces how socially responsible investors find and use information about rainforests.
- explains how investors can influence what companies do.
- suggests ways for civil society organisations to reach more investors, financial analysts and information providers.

If you're just starting to think about these issues, you're in the right place.

What is socially responsible investing?

Many different types of people and organisations invest in companies. For rainforest organisations, the most relevant investors are ones that invest only in companies that act sustainably and ethically. This approach is known as socially responsible investment.[2]

Socially responsible investment (SRI)

Investors who follow a socially responsible investment approach invest only in companies that they think are acting in a sustainable and ethical way. They believe that a company that acts in a way that respects the environment and has good relations with local communities is more likely to be financially successful in the long term.[3] This approach has become increasingly popular among North American and European investors in recent years.[4]

Socially responsible investors make decisions by analysing a company's financial performance, together with information about its activities related to the environment and relations with local communities. Among other things, they look at evidence that companies have committed deforestation, been involved in violent incidents or acted in a corrupt way.

How can it help you?

Some investors can influence a company to improve its practices. They do this by using their status as owners of the company to pressure the company's management team to change the way it works. Sometimes this is through informal dialogues, and at other times, it's through formal votes at the company's annual general meeting. In addition, if investors think that a company has poor environmental practices, it might mean that there is less new, external investment in the company's shares.

Share

A share is created when a company divides its capital into equal portions and calls each one a 'share'. These shares are then sold to raise money for the company: when an investor buys one, they become a "shareholder" and then own part of that company. If the company performs well or there is more demand for its shares, the shares will become more valuable and the investor will benefit. The more shares an investor has in a company, the more influence on that company it can have.

If a socially responsible investor decides that a company is not acting responsibly, they can decide not to invest in it or pull out ("divest") money that they have already invested. This signals to other investors that they are worried that the company will become less valuable. This can also encourage other investors to divest, making *all* its shares less valuable. This is usually a bad thing for a company because it makes it harder for it to raise money from other investors.

To avoid this situation, companies will sometimes change their behaviour to encourage investors to hold onto their shares. Investors also often try to influence company activities to make the company more profitable (which increases how much their shares are worth).

Even though socially responsible investors use expensive, sophisticated methods to access data to make decisions, many say that they are still looking for better information on rainforests. Most already make decisions using some information from civil society organisations, and are ready to accept more. This gives civil society organisations an opportunity: if they can present data in a way that investors can use, they could help investors make better decisions and protect rainforests at the same time.

Data

The term "data" includes any kind of information that you collect or use during your work: whether that takes the form of text, photos, videos or numbers. There are two main types: "qualitative" data like text from interviews and "quantitative" data that can be counted. Both can be used in advocacy to socially responsible investors. For more, read School of Data's short guide: "What is Data?"[5]

How socially responsible investment works

WHO INVESTS?

- Asset managers/Financial managers
- Public investment funds
- Pension funds
- Sovereign wealth funds
- Insurance companies and hedge funds
- Credit unions

HOW DO THEY DECIDE?

- Negative screening
- Positive engagement
- Best in class
- Absolute standards
- International norms

WHERE DO THEY GET INFORMATION?

COMPANIES	Company reporting Company engagement
INDUSTRY GROUPS	Industry scoring
GOVERNMENTS	Administrative data Environment data
NGOs	Reports Interviews
INFO PROVIDERS	Media scans Research
THEMSELVES	Field research Peer information

How do investors decide to invest responsibility?

The investment world can be confusing and intimidating, and it works very differently in different contexts. Effective advocacy strategies can significantly increase rainforest organisations' potential to change company behaviour through SRI, but they need research. Here are the basics to get you started.

Fund

A fund is a collection of investments that investment managers use to pool individual investors' money. For example, a pension fund will invest savings from thousands of people into one fund that invests in many different companies. Sometimes these funds are very small and specialised. Sometimes, they are very large and include a lot of different types of investments.

Who's involved?

Some of the institutions:

Asset managers: companies that large pension funds appoint to invest money for them. Asset managers also control public investment funds (see below) that individual people or small pension funds can invest in. Credit unions sometimes also provide this service.

Public investment funds: funds controlled by asset managers that individuals, corporations or smaller pension funds can invest in. These include mutual funds, investment trusts and open-ended investment companies (which are all funds pooled from many investors).

Pension funds: organisations that invest money on behalf of people who are saving and want to receive income in their retirement. These can be very large (for example, the pension fund for an entire country's civil service.)

Sovereign wealth funds: a state-owned investment fund. These often invest directly in companies, but also appoint funds to invest on their behalf.

Insurance companies and **hedge funds** also invest large amounts of money (hedge funds often invest directly in company shares, if only on a short-term basis).

Within these organisations, there are different types of people who are responsible for different things:

Role	What they do
Fund managers	Check how well companies perform; decide when to buy shares or equity in a company and when to sell them.
Analysts and researchers	Research specific companies or specific issues, and recommend changes to which companies the SRI investor invests in.
People working in corporate relations and engagement	Attend the shareholder meetings of companies they have invested in, and talk to companies about their concerns.

What kinds of companies do SRI groups invest in?

Most investment groups will target companies that are listed on international stock exchanges, which are usually large and multinational. Smaller, national companies are often the ones in direct contact with rainforests because they are the ones clearing land, refining resources, or providing security services. International investment groups will often own shares in companies that own a significant part of small, national-level companies (meaning that those larger companies have some control over them). Socially responsible investors also often want international companies to manage the activities of the smaller companies in their supply chain.

Supply chain

A supply chain is the chain of business relationships that support the production of a product. For example, a palm oil supply chain might look like this:

Plantation → Miller → Transporter → Supplier → Retailer & Manufacturer → Consumer

For rainforest advocacy, the important thing is that only the 'Retailer & Manufacturer' might be an internationally listed public company. Socially responsible investors that invest in that company will want them to ensure that any company it deals with also act sustainably and ethically.

How do investors decide?

Socially responsible investors always make their decisions according to an existing policy or set of guidelines. For example, these can be detailed instructions to avoid investment in specific geographic regions or specific sectors like palm oil.

They can also be loose guidelines that can be interpreted in different ways, such as following the terms in international treaties, avoiding investments that contribute to "violations of rights", or pursuing investments that promote "sustainability". Whatever forms these norms or guidelines take, they are generally applied in one of the following ways:

- **NEGATIVE SCREENING:** Eliminating companies that do not fit with an investor's criteria *before* the investor considers investing in them. Investors often keep screening continuously to check that companies they invest in are maintaining good practices and not committing new violations.
- **POSITIVE ENGAGEMENT:** Identifying companies that are involved in problematic behaviour and then trying to convince them to improve their practices. This can happen through private meetings or by advocating and voting in shareholder meetings.
- **BEST IN CLASS:** Investing in companies that perform better than others in a particular country or sector. For example, an investor could invest only in companies most actively removing palm oil from their supply chain, or divest from companies that have been most involved in corruption scandals.
- **ABSOLUTE STANDARDS:** An approach that rules companies out of consideration if they do not meet a predefined international standard. For example, an investor might divest from a company if there is *any* evidence it has been paying bribes, or only choose to invest in a company if it achieves a certain score on the Carbon Disclosure Leadership Index.

International treaties

Many socially responsible investors base their decisions on international treaties[6]. These treaties lay out responsibilities for countries, and don't apply to companies' activity directly. However, they help SRI investors justify their decisions ethically.

For example, when article 14 of the Biological Diversity Convention says that environmental impact assessments should happen for any proposed project, SRI investors can use this to prioritise investing in companies that conduct impact assessments.

Some investors also factor in guidelines created by multinational organisations like the UN and OECD, which explain how human rights treaties apply to private companies and investors.[7]

Where do investors get their information?

SRI investors have to back up their decisions with clear and credible information. Some investors collect information themselves. Others pay other companies to collect it for them. But most information behind SRI decisions comes from a small range of sources. These are described below, with the most common information sources first.

Who provides it?

COMPANIES:

→ **Companies' reports about their own activities:** Companies give investors and potential investors information about their financial performance, policies and activities, mostly in annual reports that are released to shareholders or the public. Companies are increasingly reporting on environmental and social issues, but usually provide far less information than activists would like to see.

→ **Information gained during direct contact with companies:** When investors engage directly with companies to discuss concerns or problems, they often access a lot of information that is publicly unavailable. However, this is still only information that the company is willing to share - so investors look elsewhere too.

OWN RESEARCH:

Investors often find information through their own research, but they also regularly use information from companies that specialise in selling data to investors. In both cases, this will usually include the following sources:

→ **Desk research:** Analysts conduct detailed desk research if they are concerned about particular sectors, areas or companies. This is mostly online information published in English (though some work is in multiple languages).

→ **Company-specific, purchased information:** A number of private companies sell information on specific company characteristics, analysis of financial trends and market opportunities, though this is not publicly available.

→ **Information from peers**: Many investors will share information and contacts informally if they have a shared interest in a particular sector or company.

→ **Public administrative and environmental data**: Investors or information providers sometimes look for information such as procurement or land data that shows companies' relations with governments, or scientific and regulatory data that can tell them about the impacts of company activity.

→ **Field research**: Researchers very occasionally visit the sites where companies are operating, to view operations, speak to governments and company representatives, or to speak with local communities and organisations.

MEDIA:

Many investment managers and information providers search media coverage for keywords (like "human rights" or "palm oil") that are connected with the names of companies that they are researching. This can pick up information from press releases by rainforest organisations, or investigative reporting on companies' activities.

CIVIL SOCIETY ORGANISATIONS:

Investors often include some information from civil society groups in their research:

→ **Rankings or scorecards** by international advocacy groups such as Rainforest Action Network's scorecards.[8] Investors often rely on these rankings because they allow them to compare data easily and often have rigorous standards for the data they include.

→ **Information from international campaigns that focus on specific problems or companies**, most often from well-known, international NGOs such as Global Witness or Greenpeace.

→ **Aggregated map data:** Some investors use map data from projects like Global Forest Watch, which brings together information about logging, forest fires and deforestation into a single online map.[9]

→ **On-the-ground information from local civil society organisations**: Some investors and information providers contact small, in-country organisations directly to ask for more information. This is fairly rare, and usually only happens when investors have precise concerns about a specific region, sector or company.

MULTI-STAKEHOLDER GROUPS:

These groups include different types of actors, and provide information and support to investors, such as reports or company rankings in specific sectors. They also monitor and liaise with specific companies. Key groups include the Principles for Responsible Investment (PRI), which is convened by the United Nations[10], and the CDP.[11]

INDUSTRY GROUPS:

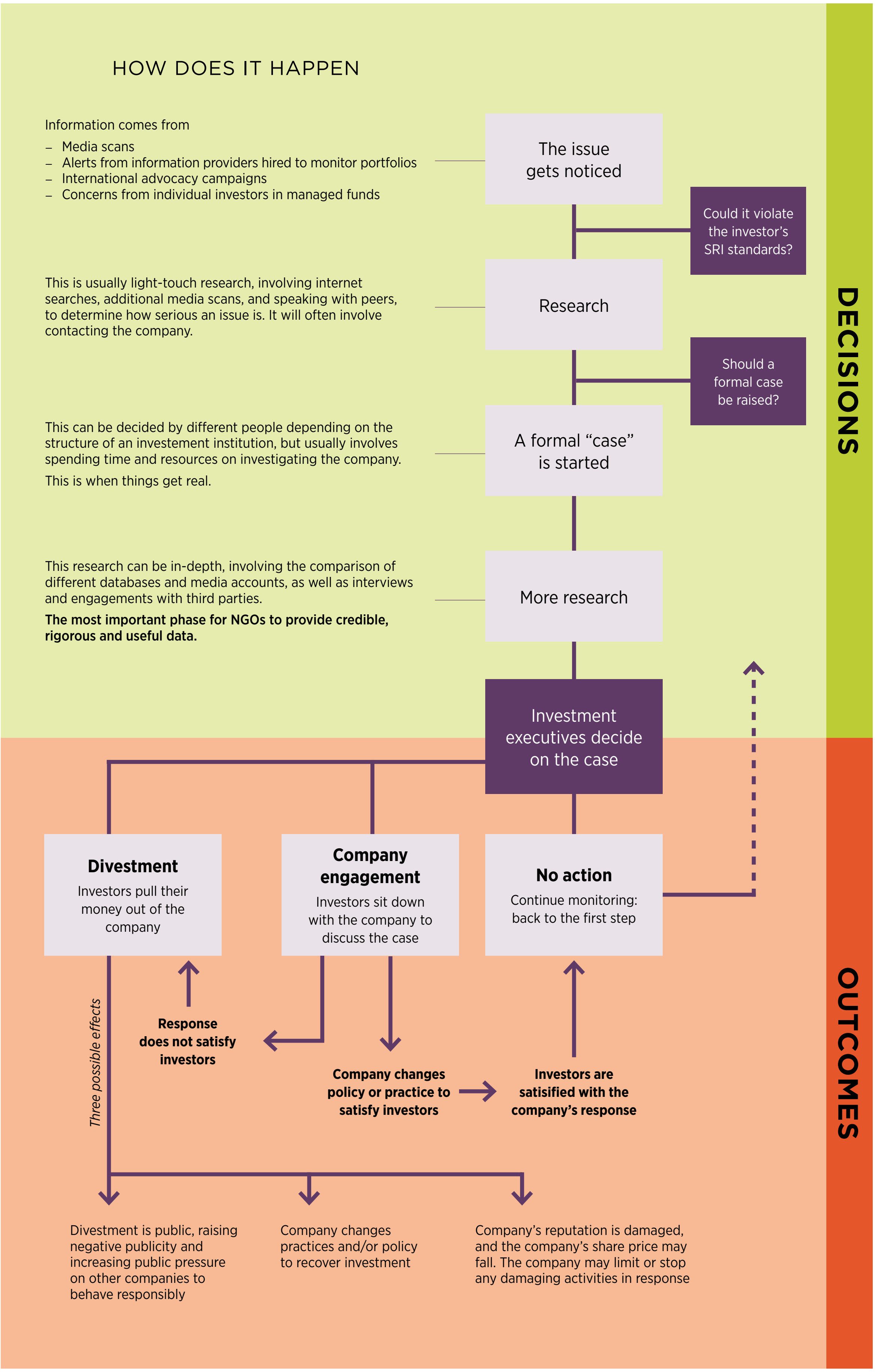
These make links between investors to provide a limited forum for strategy and experience sharing. These groups are usually closed to non-investors, and even within them investors only share some information with each other. Examples include the Forum for Sustainable and Responsible Investment[12] and CERES.[13]

What happens when an SRI decision gets made?

There are several decisions and outcomes that rainforest protectors might want to work towards. Here is a generalised overview.

What the investor does	What happens	Effect on company
Decide not to start investing in the company	The investor chooses not to invest in the company in the first place.	If the investor was giving money directly to the company in exchange for shares, the company will miss out on receiving money that could have improved its performance. If the investor had been considering buying shares from another investor (but didn't), those shares will not increase in value.
Remove their existing investment in the company	The investor sells their shares in the company ('divesting', or 'excluding' them from their portfolio). Sometimes it does this publicly by issuing a statement.	The share price of the company may fall and its public reputation may be damaged. If the company is excluded in public (rather than in private), its reputation might suffer, too.
Discuss the problematic issues with the company	Organisations that hold shares in a company contact the company to ask the company to explain how it is dealing with problematic issues. This is also known as "engagement".	There are two options here: the investor decides that the company improves its practices and retains its shares, or the investor divests from the company.
File a shareholder resolution	During a company's annual general meeting, people or organisations that hold shares in a company can submit a non-binding recommendation to the company's board of directors. This is more common in the US.	The company's board could be influenced to change its policy on social, ethical, environmental and human rights issues.
Join international advocacy or industry initiative	The investor group may choose to join an international initiative that works with other investors, governments or civil society to draw attention to a specific issue. This can signal the importance of the issue to companies and other investors, and also lead to the production of useful tools and initiatives (for example, for mapping companies' supply chains).	This has no direct effect on the company, but could lead to long-term improvements in the sector.

There is an infinite number of ways in which information can lead to these types of outcomes, or entirely different ones. Below is a highly simplified flow chart of what SRI decision-making looks like, identifying some of the points where NGO information and data might be influential.



What investors want

There's no easy answer to this. However, our interviews with over 30 professionals working with socially responsible investments suggests one thing: they want information that makes it easier for them to do their jobs. They need information that they can build into their daily routine, uses language that they are already familiar with, and can be presented to their colleagues or other investors.

Much of this comes down to presentation. A clean and professional report, documenting data that appears scientific and is endorsed by an NGO with a strong reputation, is much more likely to influence SRI decisions than a press release with dramatic accusations made by an NGO that investors or analysts don't trust. This doesn't mean that such communications aren't useful for advocacy. But they need to be presented strategically if they're going to make a difference to SRI decision-makers. Here are some rules of thumb to consider.

Easy to understand

Investors and analysts are busy people, and see large quantities of information every day. The quicker they can understand the information, the more likely they are to use it. The main things they are looking for are:

- **How an incident in a particular area relates to a company** – It's not enough to provide evidence of the event on its own. Show how the company is involved.
- **Whether an incident is part of a trend:** Investors are less interested in evidence of one-off violations: they need data that proves that a company has been regularly acting in a way that violates environmental or ethical standards.
- **Whether data from other sources backs up a particular report:** Investors feel more confident in the validity of information if other independent sources (like media articles, other reports or expert witnesses) can support it.
- **How companies are linked together:** Investors often invest in large international companies that use local companies to work in rainforests for them. However, relationships between these companies are often unclear. To influence larger companies, investors need factual information that a local company is supplying a larger company, or that it is owned by or linked to an international company in some other way.

Information about money and investments

Financial arguments are the key factor in most socially responsible investment decisions. This means that information showing that a company's behaviour makes it a less valuable investment is particularly powerful. For example, protests that stop a company working in an area could make the company lose money (because it can no longer work there), or damage its reputation (meaning that fewer people buy its products). This could lead the investor to decide that the company is a bad investment, and sell their shares in the company.

Transparent methods

When investors assess information, they look closely at the way in which it was collected. Several interviewees in our research said that they wanted to see NGOs describe their methods for collecting data, and that they were more confident in recognised and explicit methodologies (especially "scientific" or "objective" methodologies). At the very least, investors have to know *where* information came from, *how* it was collected and if it was changed in any way before being presented to them.

From a trusted source

SRI researchers are more likely to use information from organisations that they respect and trust. This is because their recommendations (and the sources they are based on) need to be presented to executives and boards who have even less knowledge of specific cases. Large, established organisations have reputations that make it easy for them to engage with international investment managers. Investment managers also said that relations with NGOs built up over a period of time were important.

Objective information

Investors have to demonstrate that they are making decisions based on solid factual information. If information they use appears biased, investors will be more reluctant to use it. Some companies also question the validity and objectivity of civil society data in an attempt to deflect criticism when investors engage with them directly.

What you can do

Socially responsible investment can be a powerful way to change company behaviour around rainforest issues, but it's not easy for small advocacy groups to influence these decisions. This section suggests some practical ways to make it more likely that socially responsible investors will use the information you collect.

Some things to keep in mind

- **You often won't know exactly what data investors are looking for** because they don't publicly explain their methods for collecting and using data.
- **It can be hard to know if your information has had an impact** because most investors don't state publicly that they are divesting from a company, or asking a company to change its practices.

Strategy

Figure out which companies are relevant
Find out which companies are working in your geographical area or sector. Focus on companies that are listed on international stock exchanges: their websites will tell you this. Which companies are working in particular areas or sectors?[14] Research how they are linked to other companies. Does one company supply another company?[15] Are they owned by anyone else?[16] Investors are very interested in how companies that are committing violations are linked to other companies.

Find out which investors are relevant
This might not be easy, but once you know which companies are listed on international stock exchanges, try to find out which socially responsible investors might own shares in them. This can be difficult to find, but may be stated on investors' websites. Some companies list major investors in annual reports. (Bloomberg also gives comprehensive data, though this is very expensive.)[17] If you find a specific investor, check their web pages to see what kind of SRI standards they use, and use this to craft your advocacy and data collection strategy.

Build your credibility in the media
If the media or others refer to your organisation as a credible and objective authority, you will find it easier to influence investors when you need to. Keep close relations with journalists that are interested in topics relevant to you. When you write a press release, link to more details on your own website so that researchers or investors can find more detail.

Use keywords to get noticed by media scans
Include words in press releases or news sources that investors are likely to be searching for. Particularly useful content includes company names (as many relevant ones as possible), specific location names, details of the company's activities and how they link to a particular area. Other likely common searches include 'palm oil', 'deforestation' or 'logging'. Read the strategies of socially responsible investors to work out which words they use. Try to get information on multiple websites and media sites (providing different, tailored versions is also a good idea). All this increases the chances that it will be noticed by SRI researchers.

Form relationships with researchers and investors
Some researchers and investors will try to talk to organisations on the ground when they are conducting in-depth research. If you can help by providing evidence and contacts, your information will be more likely to be included. If you are contacted by investors or information providers, be ready to cooperate. Publish the names and contact details of your staff clearly online, as well as their areas of expertise. If you have access to areas that others don't, explain this clearly.

Partner with well-known organisations
Some larger organisations or researchers need to collect information from areas that are remote or hard to access. Smaller civil society organisations might find these easier to reach. Contact international organisations or other national organisations and ask if they are interested in using your information.[18]

Presentation

Show how a problem in a particular area is linked to a company's work
Don't just describe a problem in a particular area – explain how a company is causing the problem (or solving it). This is most effective if you can show why the company's activities are bad for the company financially, as well as the other people affected. If possible, describe how this relates directly to international standards on rainforests and SRI investment.

Clearly label and describe your data
Present your information for other organisations and researchers. If you have numerical or mapping data, provide links to the original sources. Consider publishing it as 'open data', which means that it that can be freely used, reused and redistributed by anyone. This involves two things: choosing a suitable format (there is a list here[19]) and licensing it so that it can be re-used.[20] This can make it more likely to be used by larger organisations with better access to investment managers, and more accessible and credible for investment managers themselves.

Include a strong methodology and description of your sources
Investors use information from civil society organisations when they think it is reliable and well-researched. You can help to persuade investors that your information is important by showing clearly how you got it and have treated it. Your reports or data should include:

- where the information comes from
  - **where** the information was collected and which geographic locations it covers
  - **when** it was collected
- **how** you collected the information
  - what methods you used to collect it
- **what you did** to the information
  - if you analysed the information, how you did it
  - if you combined the information with any other sources, how did you do that
  - when you include a source, add a reference (or citation) that states exactly where it came from.

Questions? Want to learn more?

Get in touch with Rainforest Foundation Norway at rainforest@rainforest.no.

NOTES

1 The guide is based on interviews with 30 investors, information providers and civil society organisations in Europe and North America, conducted between March 2014 and September 2015.

2 Socially responsible investing is also known by other names including "ethical investing," "mission-related investing" or "values-based investing".

3 The UN Principles for Responsible Investment have a full definition: http://2xjmlj8428u1a2k5o34l1m71.wpengine.netdna-cdn.com/wp-content/uploads/1.Whatisresponsibleinvestment.pdf

4 "Money managers increasingly are incorporating ESG factors into their investment analysis and portfolio construction, driven by the demand for ESG investing products from institutional and individual investors" US Sustainable, Responsible and Impact Investing Trends 2014 (http://www.ussif.org/Files/Publications/SIF_Trends_14.F.ES.pdf), "investment approaches making some form of reference to extra-financial factors are gaining strong momentum in Europe" European SRI Study 2014 (http://www.eurosif.org/publication/european-sri-study-2014/); "There is heightened scrutiny and pressure from investors and Limited Partners (LPs) to address ESG", ERM Responsible Investment Market Trends 2015 (http://www.erm.com/globalassets/documents/presentations/2015/responsible-investment-forum-brochure.pdf)

5 http://schoolofdata.org/handbook/courses/what-is-data/

6 There are many treaties, but they include the Universal Declaration of Human Rights and the Convention on Biological Diversity

7 For example, the UN Guiding Principles for Business and Human Rights, the UN Global Compact, and the OECD Guidelines for Multinational Enterprises

8 http://www.ran.org/sf20scorecard

9 http://globalforestwatch.org

10 http://www.unpri.org

11 http://www.cdp.net

12 http://www.ussif.org

13 http://www.ceres.org

14 Sites like the Land Matrix provide information on some industries and areas: http://www.landmatrix.org/en/get-the-detail. Global Forest Watch Commodities also provides information on companies' activities, including geospatial data on concessions in forest areas, locations of palm oil mills and more: http://commodities.globalforestwatch.org.

15 Sourcemap provides some information on this here: http://www.sourcemap.com/open. The Sustainable Palm Oil Transparency Toolkit gives information about palm oil producing companies and maps concession areas. http://sustainablepalmoil.org

16 Read an introduction to mapping company networks here: http://www.slideshare.net/psychemedia/scoda-company-networks2 and here: http://schoolofdata.org/2013/11/15/an-introduction-to-mapping-company-networks-using-gephi-and-opencorporates-via-openrefine. You can also ask members of the Influence Mapping Network for advice: http://influencemapping.org

17 This blog explains how you can use Bloomberg for advocacy work: https://wildtech.mongabay.com/2016/05/use-bloomberg-terminal-advocacy-work-basics.

18 For example, the Sustainable Palm Oil Transparency Toolkit contains a set of case studies where other civil society organisations have conducted advocacy on supply-chain related issues: http://www.sustainablepalmoil.org/ngos.

19 http://opendatahandbook.org

20 http://opendatacommons.org/guide

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