NGO guide:
6 steps to engaging financial institutions

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VBDO

IUCN National Committee of The Netherlands

WWF

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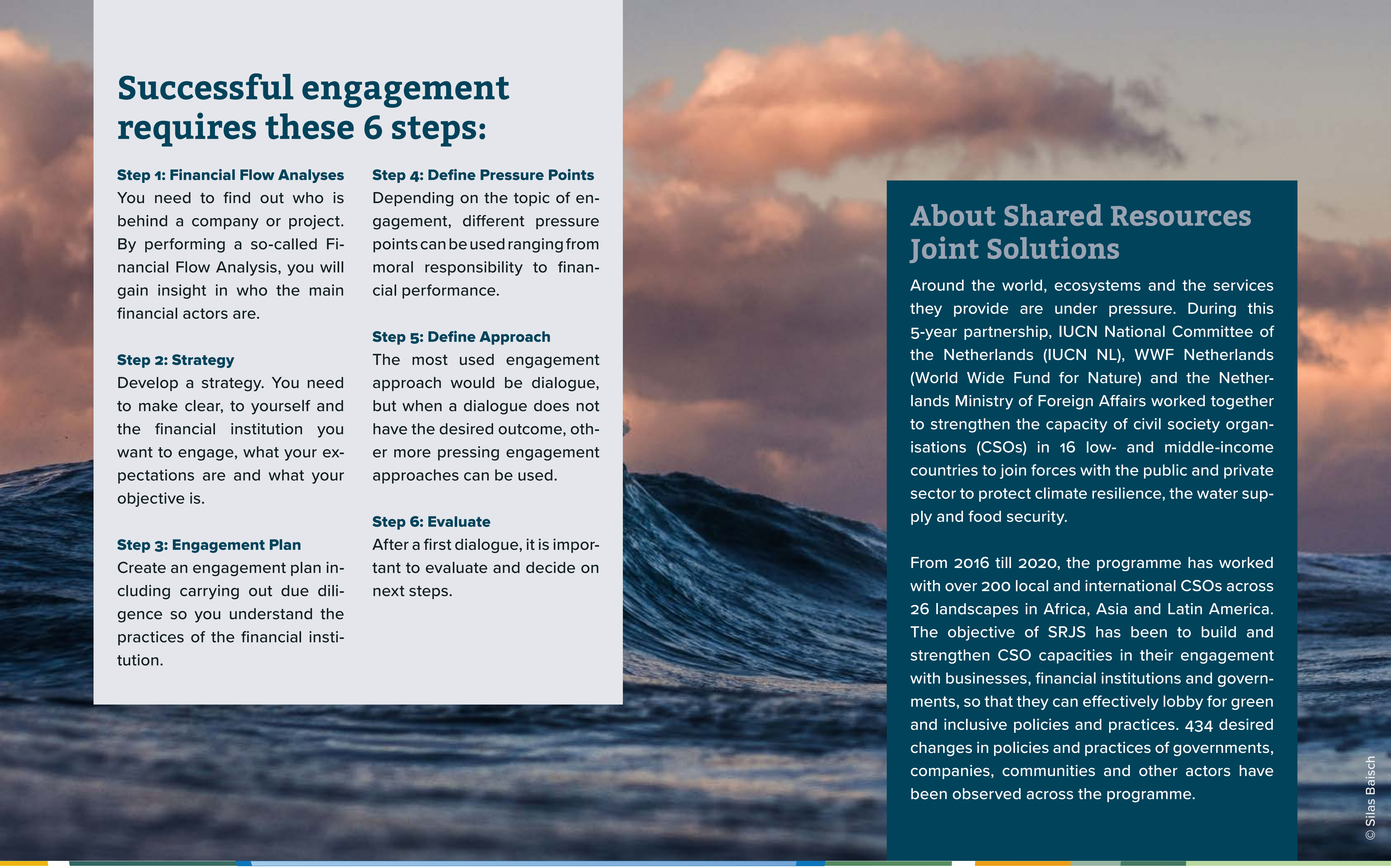
Introduction

This guide offers concrete steps for NGOs and local civil society organisations (CSOs) worldwide which are active in nature conservation. It sets out how to achieve successful engagement with financial institutions. You'll also gain insights in how these institutions work and get advice on to engage more effectively.

The guide brings together the lessons of the programme Shared Resources Joint Solutions (SRJS). It is to be used by conservation organisations who want to engage financial institutions and draws on the lessons of all

This guide can be used in combination with the Top Tips Guide for conservation organisations, that was launched in December 2020. The collection of 'top tips' highlighted in this publication draws on lessons from 12 case studies provided by local SRJS partners, and offers a practical roadmap for conservation organisations to consider from the preparation phase before approaching business to the engagement phase, and finally, scaling up. The guide can be found **here**.



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Successful engagement requires these 6 steps:

Step 1: Financial Flow Analyses
You need to find out who is behind a company or project. By performing a so-called Financial Flow Analysis, you will gain insight in who the main financial actors are.

Step 2: Strategy
Develop a strategy. You need to make clear, to yourself and the financial institution you want to engage, what your expectations are and what your objective is.

Step 3: Engagement Plan
Create an engagement plan including carrying out due diligence so you understand the practices of the financial institution.

Step 4: Define Pressure Points
Depending on the topic of engagement, different pressure points can be used ranging from moral responsibility to financial performance.

Step 5: Define Approach
The most used engagement approach would be dialogue, but when a dialogue does not have the desired outcome, other more pressing engagement approaches can be used.

Step 6: Evaluate
After a first dialogue, it is important to evaluate and decide on next steps.

About Shared Resources Joint Solutions

Around the world, ecosystems and the services they provide are under pressure. During this 5-year partnership, IUCN National Committee of the Netherlands (IUCN NL), WWF Netherlands (World Wide Fund for Nature) and the Netherlands Ministry of Foreign Affairs worked together to strengthen the capacity of civil society organisations (CSOs) in 16 low- and middle-income countries to join forces with the public and private sector to protect climate resilience, the water supply and food security.

From 2016 till 2020, the programme has worked with over 200 local and international CSOs across 26 landscapes in Africa, Asia and Latin America. The objective of SRJS has been to build and strengthen CSO capacities in their engagement with businesses, financial institutions and governments, so that they can effectively lobby for green and inclusive policies and practices. 434 desired changes in policies and practices of governments, companies, communities and other actors have been observed across the programme.

An important component of the SRJS programme has been building the capacity of CSO partners to engage with the financial sector. This work was supported by the Dutch Association of investors for Sustainable Development (VBDO). VBDO, WWF NL and IUCN NL were able to bring together financial institutions and CSOs to discuss how investments impacted nature in specific landscapes and projects. Information financial institutions often did not have on site level.

What is engagement?

During the SRJS partnership multiple dialogues were set up between CSOs and financial institutions. These dialogues, with the purpose of supplying information to a financial institution in order to change the sustainable policy or actions, we call engagement.

The link between finance and nature

Financial institutions depend on ecosystems services in many ways. Research from the World Economic Forum shows that US$ 44 trillion of global GDP –around half– is highly or moderately dependent on nature. They face physical, regulatory and legal and reputational risks when they invest in companies that have a negative effect on ecosystems.[1,2] Our economies rely on nature. Our financial system in turn relies on stable economies. Financial institutions provide money to companies and the government. They can redirect their money to other organisations if a company or government does not comply with their sustainability related requirements. Financial institutions are dependent on healthy ecosystems and many services they deliver such as climate stability, water provision, soil fertility and pollination services. These services support productivity in various economic sectors that involve finance (e.g. agriculture). In the long run, the financial sector depends on the performance of these economic sectors.

Why engage with financial institutions?

When a CSO collaborates with a financial institution such as a bank, insurance company or pension fund, this collaboration can have a big impact. Why? Because CSOs often have the right information on the negative impact a company or a specific project has on the environment, local communities or human rights in general. This is why collaboration between financial institutions and CSOs is of major importance. When a financial institution invests in a company, it becomes an important stakeholder. Thereby, it holds leverage over the company. Combining this leverage with the right information a CSO can supply can be a powerful tool for change.

To be able to engage with financial institutions effectively it is important to speak 'their language' and understand how different financial institutions operate and what types of products they offer. So, in the first part of this guide we offer a brief overview of what kind of financial institutions there are and how they work. Then we will move on to the core of this guide: how to engage with financial institutions, with six concrete steps towards a constructive dialogue.

Our experiences in Zambia and the Philippines will be used as examples of how engagement between CSOs and financial institutions was established.

[1] https://www.weforum.org/reports/new-nature-economy-report-series

[2] Indebted to nature. Exploring biodiversity risks for the Dutch financial sector, DNB and PBL: https://www.dnb.nl/en/binaries/Indebted%20to%20nature%20_tcm47-389172.pdf

A last important note is operational space. In order to be able to take the step of engaging with a financial institution it is essential that you have the operational space to do so. Unfortunately, in some cases it may not be safe to take this step due to for example fear of retaliation (from a company or government). This guide is meant to be a roadmap for those CSOs that are in the position to safely engage with the financial sector.

From the NGO case ‘How to Stop a Mining Company’:

The province of Palawan carries the same name as its largest islands, out of more than 1.700 islands that make up the region. The province is called the ‘last frontier’, because of its location on the southwestern edge of the Philippine archipelago, not far from Borneo. The islands are lush with forests and mountain regions, containing enormous biodiversity and are inhabited by various indigenous communities. Palawan is also rich in minerals such as Iron, Manganese and Nickel. Located in the South Chinese Sea, it’s also easily accessible, which makes it a very lucrative region for mining and extraction companies.

“The law states all natural forests are considered areas of maximum protection. Despite the legislation, we encounter a lot of political pressure to allow mining in these areas.” Grizelda Mayo-Anda, or ‘Gerthie’ as she calls herself, is a law professor at Palawan State University College and Executive Director at ELAC (Environmental Legal Assistance Center), an environmental non-government organisation committed to helping communities uphold their constitutional rights. Mining in a forest rich area, inevitably means deforestation. “Even infrastructure projects such as roads are being built across protected areas such as mangroves, which are vital to our ecosystem. It’s frustrating to have a law and still see these things happen”.

1 What you need to know about financial institutions before engaging them

Firstly, it is essential to understand the different types of financial institutions:

Commercial banks
Provide financial services, including tenure loans, to the general public and to certain companies under certain conditions.

Public banks
A financial institution, of which a state, municipality, or public actors are the owners. It is an enterprise under government control.

Investment banks
These banks connect companies and governments looking to invest their money with other companies that are seeking investors. Investment banks facilitate and manage the resulting investment.

Bilateral development banks
These international financial institutions are owned by one government. They offer loans in developing countries to governments or private companies for projects.

Multilateral development banks
These international financial institutions are owned by more than one government. They offer loans in developing countries to governments or private companies for projects.

Pension funds
These institutional investors collect money from employees or employers as a retirement contribution. The money is invested to make a return and is paid out to employees after retirement age is reached.

Insurance companies
They invest the money received when people buy insurance. These companies offer contracts in which an individual or entity receives financial protection or reimbursement against losses. The company pools clients' risks to make payments more affordable for the insured.

Asset management company
Firms that manage the assets of institutional investors (such as pension funds and insurance companies).

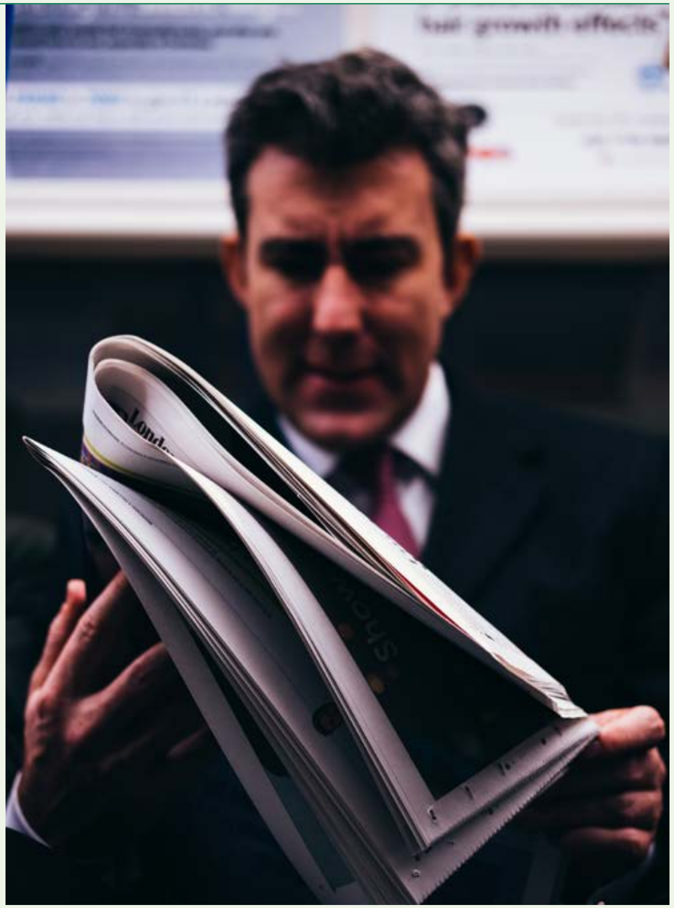
Secondly, it is crucial to understand different financial products:

Equity/Shares These are units of ownership in a company. An investor's influence on a publicly traded company depends upon the percentage of shares he or she owns.

Project loans This is a funding product which pays interest to the creditor. A company usually obtains this type of loan from a bank in order to finance a project.

Bonds Investors lend money to a company or government for a fixed period of time. During that time the investors receive a fixed or variable amount of interest in return.

Insurance Represents a contract between a corporation or individual and an insurance company. The policy holder pays a premium to the insurance company that allows them to receive financial protection or reimbursement against losses.



What do financial institutions consider before providing capital?

It is important to understand the considerations financial institutions make towards financing sustainably. Financial Institutions often define Sustainable Finance as: 'Incorporating Environmental, Social and Governance (ESG) conditions in financial decision-making' to mitigate risks and to seize opportunities around sustainable finance. ESG integration refers to the process by which Environmental, Social and Governance factors are being integrated into the investment decision making process. This integrative approach ensures that ESG criteria are identified and assessed in order for the fund to make an investment decision. ESG criteria can expose risks that might otherwise remain undiscovered, and can identify investment opportunities.[3] Financial institutions increasingly consider incorporating ESG conditions into their decision making, although ESG integration is generally less common in developing countries.

From the NGO case: 'How to Stop a Mining Company':

In February 2019, Gerthie Mayo-Anda came to the Netherlands and raised the issue with four of the Dutch investors. She also pointed out that local health disasters, national and international violations of law might cause severe legal and reputational damages to the investors, thus creating financial risk.

Next to financial risks, financial institutions also need to consider non-financial risks:

- **Regulatory:** in the case of the Philippines the planned expansion of a mine in Palawan would take place in a lawfully protected forest thus creating a regulatory risk for investors.
- **Operational:** an example would be when employees decide to strike.
- **Reputational:** in the case of the Philippines, allowing the expansion of a mine into a lawfully protected area also creates a reputational risk for investors.
- ADD Transitional

So-called externalities may also impact the investment, in this case environmental externalities:

- **Environmental:** In the case of Zambia the Zambezi river basin is a strategically vital ecosystem with regards to food and water security for the millions of people that live downstream, in Zambia, Zimbabwe and Mozambique. These large-scale developments are moving at a significant pace and are threatening the environment in many ways, including unsustainable logging, reduced and degraded habitats, poaching, wildfires, human/wildlife conflicts and disturbances to wildlife corridors.

[3] Benchmark Responsible Investment by Pension Funds in the Netherlands 2019 p 22: www.vbdo.nl/wp-content/uploads/2019/10/VBDO-BM-PF-2019.pdf

2 Five incentives for financial institutions

We broadly see five incentives for financial institutions to change their policy:

1. **Increased regulation:** a government can decide to impose new environmental regulations that will affect financing a specific project.
2. **Business opportunities:** if a financial product is used to finance projects that have a appositive impact in the environment, that investment/loan can be qualified as 'green'
3. **Access to capital:** before for example a bank decides to extend a loan, it could require an ESG system is implemented. Often, however, local banks do not have an ESG policy in place. In the case of the Philippines, we brought together local banks and local organisations to educate banks on the risks of mining in the Philippines. As a result of this dialogue, the largest local banks decided to join a working group on responsible mining where other members are CSOs, government organisations and mining companies themselves.
4. **Client and shareholder demands:** clients and shareholders can influence sustainability policies and practices.
5. **Civil society/public opinion:** Large institutional investors and banks are particularly sensitive to reputational risks. For example, financing a mining company that causes severe environmental and social damage would damage their reputation.

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From the NGO case: 'Protecting a river by working with financial institutions'

Mrs. Chanda Mwale Kumwenda, former Water Stewardship Manager at WWF Zambia points out that "uncoordinated development fragments the connectivity of the river and threatens fisheries, floodplains, livelihoods, and much more. A strategic plan about how to engage investments coming into the river basin was started in 2018 by the organisation. They learned the critical skills required to engage with the financial services sector." These critical skills, according to Chanda, include collaboration, learning what makes financial institutions tick, and speaking a common language. Together, they mapped some of the critical stakeholders and decided the most effective way to go about it.

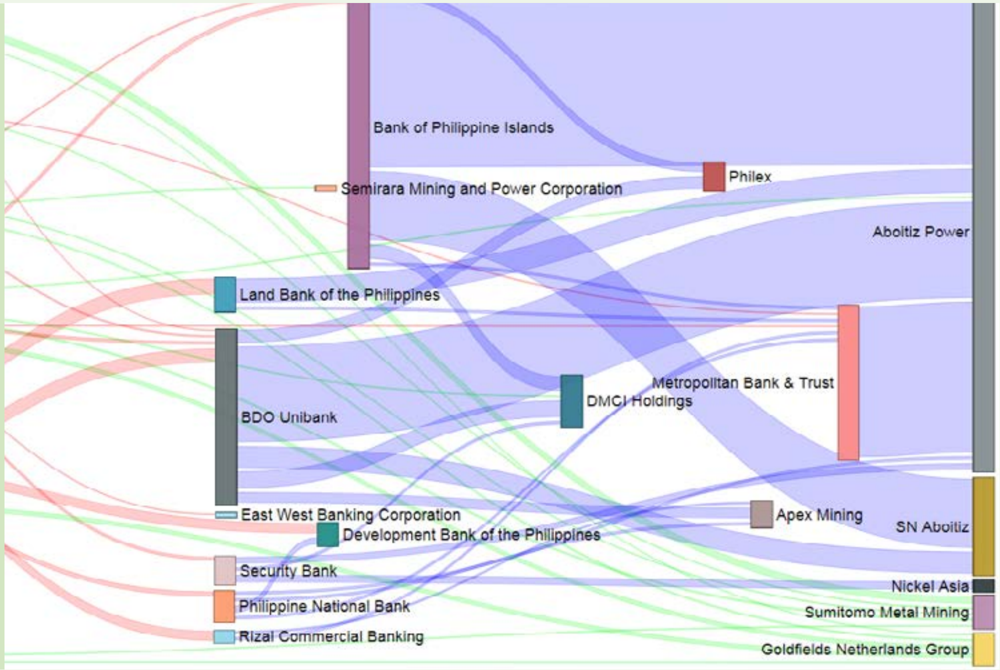
3 Barriers to sustainable finance

Next to clear incentives for financial institutions there are also some barriers to sustainable finance:

- Translating non-financial ESG risks to financial decision making can be complicated.
- ESG concerns are often long-term issues while financial products are often designed for short-term gains.
- The different stakeholders of financial institutions do not always request sustainable finance solutions.[4]

From the NGO case 'How to Stop a Mining Company':

With the help of VBDO and Profundo, a Financial Flow Analysis (FFA) was performed as a first step, showing the flow of investments to a number of selected mining companies, among which was Sumitomo. It illustrated that Sumitomo wasn't financed by local Philippine banks, but it did receive $82 million in investments from foreign investors, among whom five large Dutch institutional investors; two insurers, two pension fund asset managers and one bank. Strategic dialogue called engagement, with Rio Tuba's holding company through their investors, might make them see things in a different perspective.



[4] Benchmark Responsible Investment by Pension Funds in the Netherlands 2019 p 22: www.vbdo.nl/wp-content/uploads/2019/10/VBDO-BM-PF-2019.pdf

4 How to engage with financial institutions

Step 1: find out who is behind a company or project

Before engaging with a financial institution, it is essential to make a Financial Flow Analysis (FFA) to understand who the main actors behind a company or project are. By finding how they are involved in the project, you can decide where to start on your engagement. A financial institution can provide money in several ways, for instance by giving out loans or by buying shares.

To discover what an investment chain looks like is often easier said than done. An investment chain is the connection between all actors involved in a project or company. Completing an FFA is a complex endeavour, but it is an important first step before engaging with the financial sector. The analysis will help you understand who the main actors are and the nature of the financial flows that are powering a project or company. Based on an FFA you can make an informed decision regarding which financial institutions you want to engage with.

Depending on the project, there can be multiple financial institutions involved, either directly or indirectly, working with companies or governments. It is important to fully understand the financial institution's role. It can be difficult to trace all the actors and relationships in an investment chain, because there is often a lack of publicly available information. The financial institutions involved may change over time. They might for example choose to divest.[5]

[5] Following the Money, how to map an investment chain

Examples of how to perform an FFA

Financial Flow Analysis Philippines

IUCN NL has asked VBDO to research the financing of the mining sector in the Philippines by both local and international financial institutions, and both directly and indirectly (i.e. where foreign financial institutions provide financing to local banks in the Philippines).
This research identified the financial flows to a selection of companies. The investigations were conducted using a number of financial data providers such as Bloomberg, Thomson EIKON, IJGlobal and Trade Finance Analytics. For three companies and two banks additional research in annual reports was conducted as the financial databases lacked data on these entities. As a result of this analysis an overview was created of which financial institutions were involved in mining projects in the Philippines. Multiple large Dutch institutional investors were linked to investments in mining companies operating in the Philippines. This gave VBDO and IUCN NL the opportunity to engage with these institutions, resulting in the engagement with a mining company regarding a specific project in the Philippines. The input for this engagement came from a Philippine CSO offering the Dutch institutional investors relevant information that was not in line with their sustainability criteria.

Financial Flow Analysis Zambia

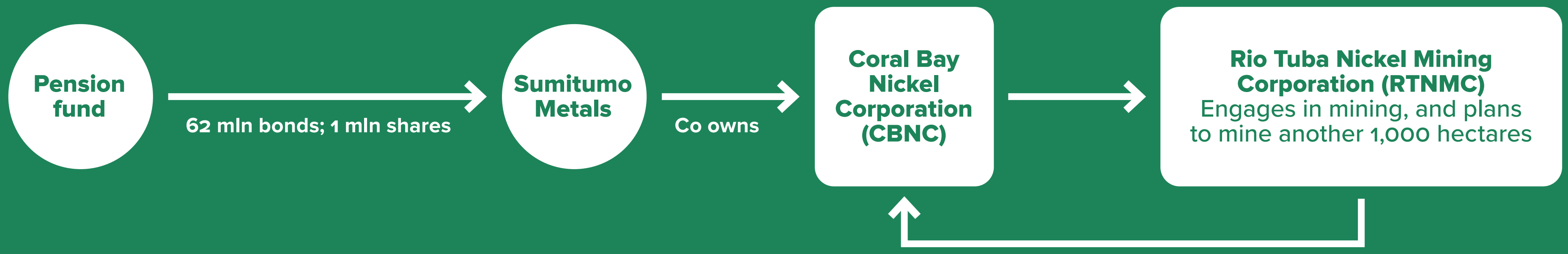
WWF Zambia conducted a financial flows assessment for infrastructure in the Zambezi River Basin. They organised a visit for a group of impact investors (ACTIAM and others) in September 2018, to show them the beauty of the river basin, its importance in supporting livelihoods and the economy as well as key threats. This was followed by the capacity building of a number of financial institutions regarding water stewardship tools and water risks.

Additionally, discussions about WWF Zambia initiatives such as Bankable Nature Solutions with multilateral banks like the World Bank took place. Dutch entrepreneurial development bank FMO has since funded a pre-feasibility study for a potentially bankable project. All this created a framework for WWF Zambia to better engage with the financial services sector.

The outcomes of the financial flow analysis in Zambia and the Philippines

It is essential to understand the money flows before entering into a dialogue with a financial institution. In the case of the Philippines we saw that foreign mining companies received the highest amount of investments. This was likely due to their larger market capitalization, and the stock exchanges they are listed on. Dutch financial institutions collectively invested approximately $80 million in companies that were active in mining in the Philippines. These Dutch investors were thereby indirectly investing in mining projects that were possibly harmful to the environment and local communities. A Philippine CSO travelled to the Netherlands to talk with these investors which led to collaborative engagement with the international mining company involved in local projects. This case showed that when a local CSO has the opportunity to inform an investor of environmental or human rights violations, these investors are far more likely to act.

From the NGO case 'How to Stop a Mining Company':



Step 2: develop a strategy

You should make very clear why you are engaging with this financial institution and what you want to achieve. Not just for your own organisation, but also towards the financial institution you want to engage. What is your objective, what are your expectations of the outcomes? You should be realistic in your approach. Don't expect to be able to fundamentally change a financial institutions operations. Instead your aim should be very targeted. You might meet resistance for a number of reasons, so invest some time in addressing the perceived risks as well as opportunities. Accommodate the concerns of a financial institution when possible and stay in touch with your constituency and peer CSOs.

It is important to know what your organisation can offer to a financial institution. What are your strengths? Most often CSOs can offer information on a specific company or project that is important to a financial institution because this information can uncover risks to the institution.

Examples of strengths are:

- Your organisation is known for its scientific expertise as well as local knowledge. That is why the financial institutions are interested in a dialogue with you.
- Your organisation is known for conducting high quality research
- Your organisation enjoys a large constituency; a large amount of people support it.
- An important strength could be your organisation's network and its ability to mobilise and build a coalition of stakeholders.

It is also essential to mitigate important risks and weaknesses for your organisation.

These risks/weaknesses might be:

- Your organisation might have been critical of the financial institution in the past, so it is possible that the financial institution does not want to talk with you.
- If the financial institution has poor policies or practices, engaging with them can be a reputational risk for you as a CSO.
- Your organisation might relate to other CSOs who have very confrontational approaches towards businesses and financial institutions. This might hamper your reputation and effectiveness.

Step 3: create an engagement plan

Objective

It is essential to define a clear engagement objective which will be focused on preventing harmful impact on nature and local communities.

Due diligence

Before engaging a financial institution, it is important to carry out due diligence. Depending on this due diligence it can be decided whether engagement would be effective and what the potential risks would be for your organisation. To investigate the practices of a financial institution it is important to check secondary sources and experts to establish:

1. The products, services, size, ownership, location and reach of the financial institution
2. The financial institutions policies and business practices as reflected in their annual reports as well as in reviews and reports written by others.

The strength of most CSOs is local knowledge and a strong network of local stakeholders. These are often things financial institutions lack, but are really interested in. This way an engagement dialogue can become a win-win situation where knowledge sharing is key.

Communication about engagement

To reduce the risks for your own organisation it is important to explain to your partners and constituency what you are doing and involve them where possible. Further it is vital to be transparent to the financial institution you are engaging about your intentions and motivations. This will help draw out mutual interests between the parties.

From the NGO case 'How to Stop a Mining Company'

"Within SRJS, we were able to get experts to study the area's biodiversity". It showed that the area is rich in biodiversity and also an ancestral domain. If you destroy the forest, you directly put at risk the lowland farming communities below" Gerthie says. "The report also states that the value of the forest outweighs the value of the minerals".

Step 4: define which pressure points to use

There are several general pressure points to be used when engaging a financial institution which can be used depending on the topic of engagement:

- **Moral responsibility:** it may be that a financial institution or the ones who take the decisions are dedicated to a particular set of ethics. For example, the board of directors might be inspired by specific sustainability principles. A good example are the Sustainable Development Goals (SDGs). Many financial institutions commit to contributing to a set of SDGs and this can be a great angle to start a dialogue.
- **The material cost of damage to ecosystem services or social unrest.** When ecosystems are damaged, production can suffer. When this happens on a large enough scale, financial institutions are at risk as well.

From the NGO case 'How to Stop a Mining Company'

An engagement plan was laid out, stating a clear purpose of the dialogue with the investors: protecting the forest and communities on the Bulanjao mountain range by engaging with Sumitomo and encouraging them to elevate their environmental and social conduct by the end of 2019. Investors would ask for no expansion into lawfully protected forest without a license, more transparency about their practices towards communities and additional (public) research towards water pollution.

- **Generally accepted norms & benchmarks:** the behaviour of financial institutions can be measured against widely accepted standards. For example, financial institutions might be ranked or compared according to standards related to climate change mitigation, human rights or transparency. Financial institutions could lose clients or financiers if they are not responsive to their relative scores or rankings and are seen as laggards.
- **Investor pressure:** local banks often have (international) finance providers that enforce stricter ESG criteria. These external banks can put pressure on a local bank.
- **ESG frameworks and policies:** many financial institutions adopt existing ESG frameworks for their operations; they may also develop their own. Financial institutions run reputational risks if it is publicly known they do not implement their adopted frameworks.
- **Financial performance:** there is a business case for sustainable finance. In general financial institutions do not lose money when they integrate ESG criteria in their policies and operations. In some cases they even perform better.[6]

Pressure points used in engagement with Dutch financial institutions regarding mining in the Philippines

In the case of the Philippines, a Philippine CSO called ELAC (Environmental Legal Assistance Center) travelled to the Netherlands to talk to two large Dutch institutional investors, with a main question: Are you contributing to a valuable future? By using a financial flow analysis, the organisation could clearly outline the relationship of these investors with

[6] International Finance Corporation: www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/business-case

a particular mining project, where environmental requirements were not met. The CSO made clear how there was a reputational as well as a regulatory risk associated with this project and came with a clear proposal: engaging with the mining company in focusing on the following topics:

- No expansion into lawfully protected forest without a license
- More transparency about their practices, towards communities
- Additional (public) research towards water pollution

Eventually three Dutch institutional investors collaborated in asking these questions in their engagement with the mining company, pressuring them to take action, and a continuous dialogue was established.

From the NGO case 'How to Stop a Mining Company'

They agreed to start engagement with Sumitomo: "In November 2019, we wrote a joint letter and sent it to the company. They were willing to enter into dialogue with VBDO and the joining investors and maintain a dialogue with the engagement group, hopefully leading to changed practices at Sumitomo".

Pressure points an institutional investor can deploy

To a CSO it is important to know which instruments a financial institution can use as pressure points. In your engagement you can already aim at those instruments you consider to have the most impact.

- **Exclusion.** An investor can put a company on an exclusion list if this company does not adhere to strictly formulated exclusion criteria, such as international treaties and investor specific values. The downside of this pressure point is that other investors who don't follow the same ESG policies are likely to take over, which makes companies do not feel the pressure to change their policies.
- **Institutional investors can exert influence on companies through informed voting during shareholder meetings.** A strong example is the shareholders meeting of Shell where a substantial body of investors urged Shell to take concrete action to reduce emissions. By voting for this climate resolution, investors sent a strong signal to Shell and the oil sector in general they wanted to see change in order to be able to reach the Paris Climate Agreement.
- **ESG integration.** Financial institutions can include ESG criteria in their (financial) investment analysis. If a company shows sound sustainability performance, investors are more likely to keep their investment in a company.
- **Impact investing.** Institutional investors can actively invest in companies or projects that are on the leading edge in terms of sustainability.
- **Engagement.** An institutional investor can actively exert influence on companies in which investments are made (or companies the investor is interested in) by entering into dialogue with them concerning sustainability performances. During VBDOs work on responsible mining, a working group of institutional investors was created in the Netherlands, who collectively investigated what their role should be in creating a more responsible mining sector. IUCN NL joined this working group as an expert. An important outcome was the decision to collectively engage mining companies on responsible water management. Next to this collective engagement, a statement was published on how investors should deal with water management in the mining sector. A large group of international investors signed the statement with collectively over 900 billion in assets under management. Collective engagement is a powerful tool for institutional investors. It gives companies a clear sign of how their investors view a specific topic such as responsible water management.

Read the Investor Statement on Mining

Step 5: how to change the policies and practices of financial institutions

There are different engagement approaches:

- **Dialogue:** When a CSO sets up meetings with a financial institution (or the other way around) to address specific issues in the form of an ongoing conversation. This is a subtle way of engagement and often works well when there is a certain amount of trust between the CSO and a financial institution.
- **Lobbying:** This is a method of influencing an entity, usually a public institution. It may involve raising an issue as well as supporting existing ones.
- **Campaigning:** This is a critical, confrontational method of influencing by putting external pressure on a financial institution. The media or other means of public communication can be used.
- **Conflict mitigation, filing complaints or litigation:** When complaints mechanisms are available, for example through national contact points established through the OECD Guidelines, a complaint can be filed toward banks as well as other companies. One can also opt for mediation, or, if dialogue shows no opportunities for improvement, for litigation.

Starting a dialogue is often the logical first step. When these conversations seem to have no effect, other more pressing engagement approaches can be considered. Alternatives can be developed in parallel. These might include setting up a partnership with multiple financial institutions, lobbying government officials, starting and supporting campaigns, or filing a complaint. Collective engagement has been achieved in the case of the Philippines where three large Dutch institutional investors decided to collectively engage a Japanese mining company.

Step 6: evaluation

After having had a first conversation with a financial institution it is time to reflect and adapt. Depending on how open the financial institution was for input of your organisation, next steps can be to:

- **Step 1:** insist on a joint investigation, this could include for example a joint visit with local leaders while visiting the site of a specific project.
- **Step 2:** monitor the actions taken by the financial institution. When promised steps do not seem to be taken, plan a call to ask what steps the institution is taking.
- **Step 3:** it can be powerful to mobilise other CSOs when the financial institution does not seem to take any action after your engagement dialogue. An example could be to ask other CSOs to also contact the financial institutions with questions about the topic of your concern.
- **A last resort could be to involve the media when a financial institution is still not acting.** It is helpful to first communicate this decision to the institution, so they know what will happen. This will give them a final opportunity to still take action. Media attention can create a reputational risk for a financial institution motivating them to still act.

Conclusion

Concluding, involving the financial sector in your goal of protecting nature is often a very powerful tool in creating a real change. The financial sector usually does not have the right information of what is happening in a specific project. Bringing together the world of finance and the knowledge of CSOs may in time create the change we so much desire for our planet.

In this guide we have tried to demonstrate what the role of finance is in protecting nature; why engaging financial institutions can have a vital impact; and mostly what steps to take in the process of engaging financial institutions.

Before considering engaging a financial institution it is essential to learn to speak their language by understanding how different institutions operate; which products they offer; and which considerations are possibly made before investing in or lending to a company or project. Only then the next steps towards engagement should be taken.

Successful engagement can lead towards more financial institutions using their influence to create positive change in protecting nature.

NGO Case Philippines: How to Stop a Mining Company

Preparing for the Worst, While Hoping for the Best

The province of Palawan carries the same name as its largest islands, out of more than 1.700 islands that make up the region. The province is called the 'last frontier', because of its location on the southwestern edge of the Philippine archipelago, not far from Borneo. The islands are lush with forests and mountain regions, containing enormous biodiversity and are inhabited by various indigenous communities. Palawan is also rich in minerals such as Iron, Manganese and Nickel. Located in the South Chinese Sea, it's also easily accessible, which makes it a very lucrative region for mining and extraction companies.

Palawan Law

In 1992, government introduced the Strategic Environment plan (SEP), a fame-work for the sustainable development of Palawan, while protecting and enhancing the natural resources and endangered environment of the province. It was meant as a guide to the local government of Palawan, focused on the formulation and implementation of plans affecting the environment and natural resources of Palawan and implemented as law in that same year.

"The law states all natural forests are considered areas of maximum protection. Despite the legislation, we encounter a lot of political pressure to allow mining in these areas." Grizelda Mayo-Anda, or 'Gerthie' as she calls herself, is a law professor at Palawan State University College and Executive Director at ELAC (Environmental Legal Assistance Center), an environmental non-government organisation committed to helping communities uphold their constitutional rights. Mining in a forest rich area, inevitably means deforestation. "Even infrastructure projects such as roads are being built across protected areas such as mangroves, which are vital to our ecosystem. It's frustrating to have a law and still see these things happen".

A Threat from Within

For Gerthie, the main challenge is to protect local communities from politics and big business. But it's not only the usual suspects that bring life to these challenges. In some cases, problems also arise from within the local communities they are trying to protect, she explains: "They [the mining companies] have local community members do labor and construction-related work. Royalties are received by indigenous community groups but the leaders of the community have changed their perspective in the last few years. We have gathered reports from community members that the royalties are not equally shared among them. In one area, the community members filed a case of misappropriation of the royalty share.

This misappropriation of money means the local ancestral culture and grounds are not protected. Why? Because in practice, these corrupted local leaders have somehow allowed mining operations even in their sacred grounds and forests, thus damaging the environment.

The Poster Boy

Rio Tuba Nickel Mining Corporation brings raw ore from Palawan to Japan. They represent one of the largest nickel reserves in the Philippines, having an estimated reserve of more than 60 million tons and present themselves as "the poster boy", as Gerthie calls it, of mining companies when it comes to responsible mining. They're also chairing the local Chamber of Mines.

In 2002 Rio Tuba started building a new hydro processing plant, in cooperation with the Japanese Sumitomo Metal Mining - Rio Tuba's holding company -

and established the Coral Bay Nickel Cooperation (CBNC). The purpose of the CBNC plant, is to produce high quality Nickel and Cobalt Mixed Sulfide from low grade nickel ore, supplied by Rio Tuba. “The nickel supply will run out in four to five years, so they want to start mining in the Bulanjao mountain range”, Gerthie says. “It’s a large range of forest and borders two municipalities.”

Sumitomo’s Response

“We brought the information to Sumitomo. We explained that allowing the expansion of mining into Mt. Bulanjao Mountain Range will result in the destruction of some 3,600 hectares of forest area. We also mentioned that while Rio Tuba promotes itself as a model in responsible mining, they will not allow critical NGOs to take part in their multipartite monitoring committee (MMT), which monitors the company’s compliance with all permits and environmental laws. For example: they use coal from Indonesia and we have received reports that large quantities of coal are falling from the trucks - which are not covered - and fall into the sea. But these issues are not being raised in the MMT”.

We raised the matter of broadening the MMT membership to Sumitomo, who pointed us back to Rio Tuba. There is also an MMT for monitoring Coral Bay, but they said it is not their responsibility, although they need the Nickel to feed into their plant”.

Research for Engagement

In 2017, ELAC joined the Shared Recourses Joint Solutions (SRJS) program set up by the IUCN National Committee of the Netherlands (IUCN NL), WWF Netherlands (World Wide Fund for Nature) and the Netherlands Ministry of Foreign Affairs, working together with the Dutch Association of Investors for Sustainable Development (VBDO) to strengthen the capacity of foreign local NGOs and civil society organisations.

“Within SRJS, we were able to get experts to study the area’s biodiversity”. It showed that the area is rich in biodiversity and also is regarded as an ancestral domain. If you destroy the forest, you directly put at risk the lowland farming communities below”, Gerthie says. “The report also states that the value of the forest outweighs the value of the minerals”.

With the help of VBDO and Profundo, Financial Flow Analysis (FFA) was performed as a first step, showing the flow of investments to a number of selected mining companies, among which was Sumitomo. It illustrated that Sumitomo wasn’t financed by local Philippine banks, but it did receive $82 million in investments from foreign investors, among whom five large Dutch institutional investors; two insurers, two pension fund asset managers and one bank. Strategic dialogue called engagement, with Rio Tuba’s holding company through their investors, might make them see things in a different perspective.

Getting the Investors on Board

An engagement plan was laid out, stating a clear purpose of the dialogue with the investors: protecting the forest and communities on the Bulanjao mountain range by engaging with Sumitomo and encouraging them to elevate their environmental and social conduct by the end of 2019. Investors would ask for no expansion into lawfully protected forest without a license, more transparency about their practices towards communities and additional (public) research towards water pollution.

In February 2019, Gerthie came to the Netherlands and raised the issue with four of the Dutch investors. She also pointed out that local health disasters, national and international violations of law might cause severe legal and reputational damages to the investors, thus creating financial risk.

They agreed to start engagement with Sumitomo: “In November 2019, we wrote a joint letter and sent it to Sumitomo. Sumitomo was willing to enter into dialogue with VBDO and the joining investors and maintain a dialogue with the engagement group, hopefully leading to changed practices at Sumitomo”.

Local Bank Investments

While Sumitomo and Rio Tuba thrive on foreign investments, they are not the only mining company active in the Philippines. Others, such as Nickel Asia, Apex Mining and Semirara Mining do have financial bonds with local banks.

Gerthie: "An important step was made in March 2019. We had individual conversations with a number of banks, the central bank and the banking association to assess their interest in a responsible mining working group."

In October 2019, an initial joint call was held to introduce the banking sector and the members of an existing round table on responsible mining. The participants included mining companies, government organisations and the NGOs round table. This call had the outcome that five banks are willing to join a face to face meeting with the members of the working group in early 2020.

Small Steps

"We're still waiting for Somitomo to respond, even though the initial engagement with them didn't give the results we hoped for." There does seem to be some advancement on the subject, though, Gerthie explains: "Rio Tuba and Sumitomo are more transparent about their mining expansion plans. They havejoined the Extractive Industries Transparency Initiative (EITI) and Sumitomo has disclosed more

about their possible expansion and how to take the areas deforestation into account.

Pressing Hope

But Rio Tuba is still pressing to continue. An environmental compliance certificate has already been granted by the Government. They're now waiting for a Mineral Production Sharing Agreement (MPSA), which can take one to two years. Once the MPSA is issued, the company can proceed with the expansion of their mining operations.

"So there's also pressure on the Dutch Investors and other parties to come through quick enough", Gerthie says. "My hope still is, that within the one or two years, the investors put enough pressure on Somitomo so they in turn pressure Rio Tuba to back down".

Lessons Learned

Gerthie has some advice for other NGOs facing similar problems, wanting to engage with investors, like speaking a common language: "The most important lesson is that you understand the [financial] sector and the different aspects of the sector. A Financial Flow Analysis makes us understand the ways in which companies are involved.

Unless you have the capacity and perspective to do this, you should not pursue engagement, because it is difficult. But if you do, it might help. Especially since government is not always on your side. So you prepare for the worst, while hoping for the best".

NGO Case Zambia: Protecting a river by working with financial institutions

The Zambezi river flows through Zambia like a blue lifeline. The river basin is a strategically vital ecosystem regarding food and water security for the millions of people that live downstream, in Zambia, Zimbabwe, and Mozambique. Although this region is still in a relatively pristine condition when compared with other landscapes in Zambia, activities such as large-scale developments moving at a significant pace, unsustainable logging, and poaching are key threats to the ecosystem.

Within their freshwater work, WWF Zambia is interested in influencing developing parties in the Zambezi river basin. Mrs. Chanda Mwale Kumwenda, former Water Stewardship Manager at WWF Zambia points out that "uncoordinated development fragments the connectivity of the river and threatens fisheries, floodplains, livelihoods, and much more. A strategic plan about how to engage investments coming into the river basin was started in 2018 by the organisation. They learned the critical skills required to engage with the financial services sector." These critical skills, according to Chanda, include collaboration, learning what makes financial institutions tick, and speaking a common language. Together, they mapped some of the critical stakeholders and decided the most effective way to go about it.

Visits with financial institutions

WWF Zambia conducted a financial flow assessment for infrastructure in the Zambezi River Basin. They organised a visit for a group of impact investors (ACTIAM and others) in September 2018, to show them the beauty of the river basin, its importance in supporting livelihoods and the economy as well as key threats. This was followed by the capacity building of several financial institutions regarding water stewardship tools and water risks. Interestingly, financial institutions were receptive to invitations.

Additionally, discussions about WWF Zambia initiatives such as Bankable Nature Solutions with multilateral banks like the World Bank took place. Dutch entrepreneurial development bank, FMO, has since funded a pre-feasibility study for a potentially bankable project. Aim is to encourage corporate to invest in pre-treatment of industrial wastewater resulting in pollution prevention. All this created a framework for WWF Zambia to better engage with the financial services sector.

What needs improvement?

Of course, there are still things that can be improved. Mainstreaming the financial sector agenda in day to day work and a consistent and continued engagement with financial institutions. The same goes for high-level engagement of financial institutions and ensuring institutional bilateral agreement. The use of international relationships where possible is necessary to ensure domestic engagement, for example with Rabobank and ZANACO.