Conservation and Markets Initiative
Gordon and Betty Moore Foundation

Expert Panel Review
Executive Summary
December 12, 2024

Expert Panel

John Ehrmann, Senior Fellow and co-Founder, Meridian Institute *(co-chair)*

Walt Reid, Climate and Sustainable Development Advisor; former Vice President, David and Lucile Packard Foundation *(co-chair)*

Mark Campanale, Founder and Director, Carbon Tracker Initiative

Carlos Klink, Professor, University of Brasilia, former Brazil National Secretary for Climate Change and Deputy Minister of Environment

Courtney Lowrance, Director of Durable Protection Finance at The Nature Conservancy, former Managing Director at Citi

Eri Oki, Senior Advisor, Environment and Science, David and Lucile Packard Foundation Marine Strategy

Paulo Pianez, Chief Sustainability Officer, Marfrig and BRF

Nuntawun Rujiwong, Assistant to the Senior Director at Thai Royal Frozen Food and Board Member with the Seafood Task Force

Alison Taylor, Chief Sustainability Officer, ADM

Petra Tanos, former Head of Strategic Partnerships, Tropical Forest Alliance, World Economic Forum

Gordon and Betty Moore Foundation Conservation and Markets Initiative Expert Panel Review

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Executive Summary

This Expert Panel review of the Gordon and Betty Moore Foundation's Conservation and Markets Initiative was carried out between May and December 2024 with the goal of providing an independent assessment of the approach, deployment, and results of the initiative. The panel members are people drawn largely from the private corporate and finance sectors who currently or recently worked for entities that the initiative aims to influence. The findings of the review are based significantly on the observation and judgement of the Expert Panel members and are also informed by data gathered under the initiative's monitoring framework, interviews and meetings with Moore Foundation staff, deeper research and interviews carried out by the Expert Panel members, and input from a Monitoring System Assessment carried out by Bluemark PBC and Tideline.

The framework for this review is based on Conservation and Markets Initiative's core theory of change as well as a set of "learning questions" developed by the initiative team based on ongoing collaboration with Adaptive Management and Evaluation team at the outset of this phase of grantmaking. The initiative team developed the theory of change to provide the logic and outcomes focus to the initiative. The panel recognizes and applauds the fact that ever since the initiative's inception in 2016 the initiative team has been actively reviewing and adapting their grantmaking and the theory of change based on what they have learned about the effectiveness of the strategies and tactics.

Conservation and Markets Initiative Goals

The theory of change and accompanying strategies are focused on addressing one of the major drivers in the economic system that leads to negative conservation outcomes: the production of soft commodities (including seafood harvest) by companies. The overarching aim is to contribute to durable conservation outcomes, particularly in the focal geographies. The panel endorses this approach and the efforts of the initiative to change the actions of a critical mass of market actors responsible for production, sourcing, and financing of the highest-forest/conversion-risk commodities and top-traded seafood to delink their operations and investments from ecosystem degradation. To measure the impact of this work, the initiative team established three goals to focus their work:

Goal 1: 80 percent of the soy market and 50 percent of the beef market in the Brazilian Amazon and Cerrado and the Chaco in Argentina and Paraguay are delinked from habitat conversion.

- Significant progress has been made towards this goal: companies with a combined market share of 51 percent of soy and 28 percent of cattle in these regions are delinked from habitat conversion while few if any met these criteria in 2017.

Goal 2: At least 50 percent of the global trade of top-traded, high conservation concern seafood—in particular, tuna, farmed shrimp, whitefish, and small pelagics—is delinked from habitat conversion and overfishing.

- Significant progress has also been made towards this goal: 60 percent of shrimp exports from target regions and 41 percent of global tuna catch meet these criteria, while few if any met the criteria in 2017.

Goal 3: Financial institutions that provide at least 50 percent of financing to supply chain actors engaged in forest-risk commodities, and high conservation concern seafood implement no-conversion, no-overfishing commitments.

- Significant progress has been made here as well. Financial institutions providing 36 percent of financing to target companies meet these criteria, while few if any met the criteria in 2017.

Because the initiative's ultimate aim is to reduce habitat loss and overfishing, in addition to reviewing progress towards the goals listed above the Expert Panel was asked to provide an assessment of the extent to which there is good evidence that the reductions in market-driven pressure reflected in the progress towards those goals has resulted in durable improvement in conservation outcomes.

The panel found that there is solid evidence in the literature and from our observation in the initiative's target geographies that market-driven incentives have meaningfully contributed to positive conservation outcomes.

The impact that the Conservation and Markets Initiative has had on companies and financial institutions is a necessary condition for conservation progress in the target geographies where environmental degradation is driven by commodity production, and the initiative is the only comprehensive philanthropic strategy addressing these market drivers that the panel is aware of. Durable conservation outcomes require changes not only in the actions of companies and financial institutions but also in the policy environment. Actions of companies and financial institutions can lay the foundation for policy and regulatory changes that influence the actions of additional companies and financial institutions, level the playing field, and shape market forces. We believe that the initiative's focus on companies and financial institutions has both helped improve conservation outcomes in the focal regions and has contributed to increased awareness by the private sector and governments of the negative role of commodity supply chains on nature globally.

The Case for Action

Conservation and Markets Initiative grantmaking has increased corporate and financial institution understanding of and actions to address the materiality of environmental risks associated with agricultural commodity production and seafood supply chains.

Environmental issues are often less materially significant than other issues confronting decision-makers (and perhaps less significant than assumed by the theory of change), but even where they are significant, they often are not receiving adequate attention from C-suite

decision-makers. While corporate sustainability units increasingly focus on the initiative's priorities, they often face challenges in penetrating and influencing the business decision making structures and systems in their companies. The panel notes that many companies do not give these issues adequate attention because they are much less materially significant than other issues, particularly given the short-term focus of corporate decision-making. Policy, and regulatory changes (e.g., international disclosure requirements, national fisheries policies) may be required in order increase the materiality of these issues. That said, there are still many situations where these issues should be material priorities for companies and investors and yet they are not receiving adequate attention. To address this gap:

- We observe that a critically influential voice in elevating the materiality of environmental issues to the C-suite is investors. One panel member noted that "Companies would not have policies on no-deforestation if it weren't for the investor voice."
- We support the initiative's intention to restart work on financial market sustainability and disclosure standards.
- It is important that specific examples that illustrate the financial materiality of overfishing, deforestation and ecosystem conversion be documented and shared with senior level decision makers.

Better Data and Information

Data and information tools supported by the initiative have clearly accelerated the ability of companies and NGOs to assess and monitor both the environmental impacts of commodity supply chains and corporate and financial institution commitments and actions. While a continued focus on the supply side of data availability is warranted, the real breakthroughs in the use of data and tools will come as companies act to develop and support data and monitoring systems in recognition of the materiality of these issues or in response to regulations. The panel thus concurs with the initiative team's expectation that philanthropy's role in supporting data systems and tools can decline over time while the private sector role grows.

The panel supports initiative's focus on expanding traceability of supply chains and believes that this is contributing to significant conservation gains. Traceability is an important tool, but it needs to be promoted alongside the development of effective monitoring, verification, and response frameworks to address problems revealed in supply chains. The initiative should increase its attention to the potential inequitable impacts that may result from full supply chain traceability. More equitable social outcomes are desirable in their own right and this also can reduce political opposition to traceability. And the team should recognize that alternatives to full supply chain traceability may be possible for some commodities in some regions where deforestation in the region has ended. The initiative should also support broader narratives in which traceability (along with accountability, monitoring, and verification) can be framed as helping to set the stage for positive financial incentives for companies and financial institutions.

External verification or auditing of company environmental performance and disclosure is necessary to achieve the Conservation and Markets Initiative goals. Environmental verification must eventually be internalized in the industry, just as has happened with financial auditing and verification. Regulators should require firms to disclose specific types of environmental information and to conduct independent audits to identify and address any shortcomings in their reporting. But the panel recognizes that it will be some time before full internalization occurs and, while philanthropy can help to establish those formal systems, there will be an important interim role to support NGOs to provide some level of verification and accountability of the commitments being made by companies and financial institutions.

Using Financial Markets to Drive Change

The Moore Foundation is unique as the only foundation with a comprehensive strategy focused on financial markets and conservation, and this work has been effective in changing policies and practices of financial institutions which, in turn, has contributed to progress in improving environmental performance of companies in both the seafood and agriculture commodity sectors. Through the Finance Hub and direct grants, the initiative has supported the work of a range of organizations that have sought to mainstream environmental information in the policies and portfolios of financial institutions that own the corporate securities of the target companies.

The landscape of debt finance in the commodity sector is shifting rapidly and this will require parallel shifts in strategies and tactics. Data indicates that large multinational banks are reducing their lending for soft commodities and hence their leverage on these sectors in part due to changes in the regulatory environment that have increased capital buffer requirements. Lending has shifted significantly into private credit, local banks within the focal geographies, and (in Brazil) internal finance through co-ops.

With respect to equity finance, the panel recommends that the initiative focus on both passive and active investors. The most effective avenue to influence both types of investors is for asset owners to speak out for more “forceful stewardship” from their asset managers. Asset managers for passive strategies can and do work with companies through investor stewardship to encourage changes in practices to address material issues that are a focus of asset owners. The panel notes that the initiative may want to also focus attention on the small set of investment consultant firms that intermediate between asset owners and asset managers (for example, supporting efforts to rank the environmental performance of investment consultants).

The panel highlighted several aspects of the initiative’s investor-focused work that could be further expanded with significant impact including:

- Continuing to strengthen industry initiatives focused on disclosure such as the Task Force on Nature-related Financial Disclosures (TNFD).
- Supporting the establishment of environmental disclosure and reporting requirements in global stock exchanges and regulated bond markets.
- Supporting organizations that provide institutional investors with quality information on the material environmental aspects of company performance.
- Supporting investigative research that can hold companies accountable for performance.

Tipping Points and Scale

The initiative has been effective in encouraging companies and financial institutions to support public policies associated with ending deforestation and overfishing and in supporting international trade policies to achieve these environmental outcomes. Durable conservation outcomes will require changes not only in the policies and actions of companies and financial institutions, but also in national and international policies regulating those entities. The focus on the role of companies and financial institutions has led to increased understanding of what steps need to be taken to improve conservation outcomes (e.g., traceability, public reporting) and is contributing to increased awareness of the role and content of needed policy and regulatory changes.

The Expert Panel considered the various ways in which the initiative has worked to support policy and regulatory changes and had the following observations:

- The direct role of individual companies in advocacy for policy reform on environmental issues is less influential than other forms of policy advocacy. This finding is in line with the relatively low priority that the team has given to this approach.
- Companies can sometimes be effective advocates for conservation policy reforms when they act as a group (or as a group along with other stakeholders including NGOs), and the panel notes that the initiative has supported effective initiatives of this nature in the seafood sector.
- The panel agrees with the team's view that strong corporate sustainability action can sometimes help to open the door for policy reforms by providing a "proof case" for the policy. For example, the initiative's support for livestock traceability in Brazil no doubt helped to lower the barriers to Brazil's recent adoption of a policy for full livestock traceability.
- Some necessary policy and regulatory changes may not be supported by affected companies and financial institutions but can be achieved through effective advocacy strategies involving other stakeholders. Grantees, for example helped to set the stage for the E.U. Deforestation-Free Products Regulation which had relatively limited corporate support.
- The Conservation and Markets Initiative can play an important role in supporting work to identify what the appropriate policy and regulatory changes should be.

How and when to work to achieve policy and regulatory changes is context dependent and the initiative should continue to focus where it has a comparative advantage. Robust conservation outcomes require the right corporate, financial institution, and national policies. There is no single playbook or sequencing to achieve that outcome. Because of the initiative's strong focus on companies and financial institutions, it makes sense to emphasize tactics that involve those institutions to support necessary policy changes. The panel also supports the team's focus on trade policies and other international regulations since this has not been a strong focus of other donors. (Examples include the EUDR and environmental disclosure standards for listed companies). While appropriate national policies and regulations are needed to achieve outcomes, the initiative should be selective in where it does focus on national policies since these may already be a priority for other donors.

The panel notes the distinction between "deforestation free" and "conversion free" and encourages the initiative to continue to support efforts to increase understanding of how to most effectively define and act to address ecosystem conversion. The initiative seeks to have companies and financial institutions adopt "Deforestation and Conversion Free (DCF)" policies. While the implementation of a no conversion commitment is becoming better understood in a geography such as the Cerrado in Brazil, this is not the case in many other geographies. Unlike the issue of ending deforestation, which is an internationally agreed goal, there is no such consensus for ending all conversion of <u>all</u> ecosystems. While a no-conversion goal is laudable from the standpoint of biodiversity conservation, meeting such a goal will have significant implications for many countries facing growing populations with the need for increased agricultural production in context of a changing climate. The initiative can usefully support efforts to help companies and financial institutions minimize their investments in the conversion of the most environmentally important non-forest ecosystems, but its credibility with those institutions (and some of its grantees) should be kept in mind as these strategies are contemplated.

The initiative's approach is contributing to conservation outcomes in its selected geographies and with small modifications could achieve an even greater global impact. The initiative is achieving impact in its geographies by starting with the geography, then selecting the most environmentally impactful commodities, then identifying the companies and financial institutions most linked to those commodities. It could increase its global impact by starting with the soft and hard commodities whose production will have the greatest impact on forest and marine ecosystems over the next 10-20 years, then selecting the companies, financial institutions, and regions that could provide the greatest leverage on those commodities. The economic context of production and thus the leverage of market strategies should also be an important consideration for the initiative as it considers expanding its scope. For example, because soy is grown on private land by wealthy landowners with easy market access, it is more difficult to make changes through market levers. This approach would potentially add palm oil, transition minerals, and other commodities to the remit and would also expand the geographic focus beyond Brazil. In such an expanded approach, the panel believes that the initiative will need to include some place-based engagements because companies and financial institutions will be primarily motivated by an understanding of the materiality of their actions in specific places with specific commodities.

Connecting Supply Chain Commitments to Change on the Ground via Incentives and Innovative Business Models

Given the importance of changing producer practices, the panel applauds the efforts that the initiative is making to support the development of innovative approaches to financing and incentives for producers. Both the initiative team and the panel recognize that the achievement of improved conservation outcomes depends on agricultural and fisheries producers changing their practices. Grants have had an impact on these practices via enhanced traceability and transparency as well as increased corporate commitments to implement better practices. These efforts often are taking place within a context where the legal regime does not require producers to align with objectives, as in the Cerrado where the Brazilian Forest Code allows for significant amounts of deforestation and conversion and a change in the legal regime is politically infeasible. Other factors that contribute to making changes in producer behavior challenging include: increased costs that neither upstream or downstream companies want to pay; long-standing commercial relationships between upstream companies and their producers; and the political power held by agricultural or fishing interests.

In that context, the work the initiative is supporting to develop innovative business and financial models can provide significant leverage. It is also contributing through increased outreach to and engagement with producer organizations, which has traditionally been challenging for NGOs to lead. They should seek to identify other potential grantees that are familiar with relevant producer groups who might engage with them to increase their understanding of the impacts of some traditional practices and help them explore changes in practices that can maintain and increase profitability, while also reducing negative environmental impacts (e.g., regenerative agricultural practices).

Overall, innovative business models that would provide positive, business-based rationales for improving sustainability performance have been slow to develop. The theory of change assumes the adoption of sustainability in supply chains could be enhanced if companies are not only taking steps to avoid material risks associated with habitat conversion and fisheries, but also seeing economic opportunities in better managed ecosystems and development of new business models. While overall development of innovative business models has been slow, panel members noted some important examples. Regenerative agricultural approaches that companies and producers see as a “win/win” were cited, as they can result in reduced input costs, increased yields, and both carbon and biodiversity benefits. They also noted that, while there has been some interest in carbon and ecosystem credits, that area has been slow to develop due to scientific and policy uncertainties. They also recognize that there are innovative collaborative models that have emerged such as IFACC, funded by the initiative, which is focused on supporting innovative business opportunities.

Going forward:

- The initiative should continue to explore and support efforts to connect more effectively with producers and understand what incentive approaches can accelerate the implementation of improved methods of production that are both environmentally and economically sustainable.
- Given the relevance of regenerative agriculture approaches to commodity production and land-use, the panel suggests exploring whether increased understanding of the role of such approaches might help to change producer practices to improve conservation outcomes.

- With respect to innovative business models, the panel suggests that the team explore convening people from larger companies who are exploring new business models with leaders from the innovation community. These discussions could potentially help generate new approaches that could be introduced to investors who are interested in supporting innovations that can also support improved conservation outcomes.

Amplifying the Impact of the Conservation and Markets Initiative

The panel points to four ways in which interactions with NGOs funded by the initiative assist companies: convening multistakeholder platforms that facilitate mutual learning and help in the development of innovative approaches (while protecting companies from anti-trust concerns); providing technical assistance in support of company commitments and projects; monitoring and assessing progress; and advocacy that can alert companies to emerging issues they should focus on.

It is also important to recognize, as one panel member stated, "NGO missions are one thing and what companies are doing is different." Similarly, another member noted "We operate from a different part of the brain from NGOs." These differences are of course inherent in the nature of NGOs and companies as they exist for different purposes – differences that are vital for stimulating social and environmental change in our society. It is also important to recognize that no individual NGO partner will be equipped to address the entire range of issues that companies confront associated with environmental sustainability, even though some NGOs might maintain they do have that breath of expertise and capacity. The panel notes that NGOs that operate more like "consulting firms" have been more effective at working with companies than traditional NGOs because it is easier for them understand and address the challenges a company is facing. There also can be practical conflicts of interest where a company provides financial support and that makes it difficult for the NGO to be as frank as they might be regarding concerns with the project design and/or implementation.

Conservation and Markets Initiative investments have been well coordinated with, and complemented by, other sources of funding, but there is room for more collaboration of that kind. Among philanthropic donors, the Moore Foundation is well integrated into partnerships with the Climate and Land Use Alliance (CLUA), Sustainable Seafood Funders Group, and the Tropical Forest Alliance (TFA). Moore Foundation has provided several grants to TFA and is now included in strategic discussions regarding TFA with the major bilateral donors, Norway, UK, Netherlands, Germany and the United States. Overall, it has been very helpful for the initiative to have greater visibility into the strategies of the other donors involved in similar and related work.

The initiative has channeled a significant amount of its support through several NGOs, and this has proven to be both very helpful and at times frustrating. On the one hand, these organizations possess the in-house expertise needed to help implement initiative strategies and tactics. On the other hand, they are not always as collaborative and synergistic with each other as they might, due to their own organizational priorities and the unintended consequence of each needing to demonstrate the achievement of the defined outcomes for the grants.

Going Forward:

- Panel members suggest that perhaps there are ways to develop more collaborative approaches with NGOs to facilitate greater understanding by the NGOs of the challenges and realities faced by companies and to enable companies to gain a deeper awareness and understanding of the longer-term objectives of the NGOs. Such processes could create the opportunity for more mutual problem solving, rather than adversarial jousting.
- The panel suggests that the initiative team challenge itself to seek out more non-traditional grantees who may be better equipped and positioned to help achieve initiative goals than the traditional NGO partners. The team should also seek to identify NGOs in the Global South that it might help to strengthen so that they could be more active on these issues. Implementing this approach would require dedication of resources both human and financial, but the panel would encourage that exploration.
- The initiative team should explore engaging more with country specific or regionally focused philanthropies. Too often, philanthropies focus on implementing their own strategies and miss opportunities to synergize their work with that of others operating in the same space.