FORESTS & FINANCE

The banks and investors exposed to deforestation risks in Southeast Asia

EXPLORE THE DATA

Search the database to discover the links between banks, investors and deforestation-risk companies. Run searches using different filter options including finance type, bank or investor, bank or investor region, forest-risk client or group, year and forest-risk sector. Results can be exported for further analysis.

Is your money destroying rainforests?

A new online tool – forestsandfinance.org – reveals the finance flowing into forest-risk sectors in Southeast Asia. It features:

» a searchable database on financier-client deals from 2010 onwards
» scorecards on bank policies as relevant to forest-sector environmental, social and governance (ESG) risks
» case studies on clients linked to deforestation and rights abuses

EXPLORE THE DATA

Search the database to discover the links between banks, investors and deforestation-risk companies. Run searches using different filter options including finance type, bank or investor, bank or investor region, forest-risk client or group, year and forest-risk sector. Results can be exported for further analysis.

Search total (USD million) 1274.77
ENVIRONMENTAL, SOCIAL AND GOVERNANCE RISKS IN TROPICAL FOREST-RISK COMMODITY SECTORS

Between 2000 and 2012, the world lost 1 million km² of tropical forests, an area nearly three times the size of Japan, with some of the highest losses occurring in the tropical rainforests of Southeast Asia. The major drivers of deforestation and forest degradation in Southeast Asia are palm oil, pulp & paper, and the expansion of industrial rubber and logging operations. This has caused a range of devastating environmental impacts as well as human rights abuses against local communities and workers. In 2015, fires set to clear land and forests for industrial plantation expansion in Indonesia and Malaysia blanketed large parts of Southeast Asia in choking haze, resulting in a public health crisis, which also released more greenhouse gases in a few months than Japan’s total annual fossil fuel emissions.

ENVIRONMENTAL RISKS

» Biodiversity Loss: Tropical deforestation and degradation is one of the leading drivers of biodiversity loss and extinctions - Southeast Asia’s remaining tropical forests sustain many iconic species, including critically endangered tigers, pygmy elephants, rhinos and orang-utans that are found on the IUCN Red List.1

» Climate Change: Tropical deforestation and degradation releases massive amounts of carbon stored in trees and is estimated to contribute to 14-21% of annual global greenhouse gas emissions.2 An additional 1-2.5% of global emissions comes from peatland degradation in Indonesia, largely from palm oil and pulp plantations.3 Forest and peat fires in Indonesia burned 2.6 million hectares and released an estimated 1.75 billion tons of CO₂e in 2015, with daily emissions during the fire season peak exceeding the fossil fuel emissions of the entire US economy.

» Water: Deforestation impacts water flows, flood protection and can disrupt rainfall patterns at regional, national and international scales, with water value losses far in excess of the forest timber values.4

» Pollution: Logging and plantations for palm oil and pulp and paper, and associated mills and refineries, cause soil erosion and chemical contamination of freshwater systems.

SOCIAL RISKS

» Displacement: Hundreds of distinct Indigenous cultures and languages across Southeast Asia are dependent upon healthy forests and access to traditional territories - displacement for logging and plantations causes social upheaval, food insecurity and poverty.

» Human Rights Violations: Local and Indigenous communities routinely experience serious rights violations involving private company and state intimidation, violence, rape, and sometimes killings.5

» Land conflict: Conflicting legal claims over land tenure between customary land owners and logging or plantation companies is common, and may be associated with government failure to recognize or protect indigenous and customary land rights. Additionally, companies often fail to conduct full and fair procedures providing local and indigenous communities the option of providing or withholding their Free, Prior and Informed Consent (FPIC) to development on customary lands; 6

» Exploitation: Exploitative labor standards in the logging and plantation sectors are common including forced labor, child labor, and exposure to toxic pesticides and fertilizers, without adequate health and safety protections. Many of the palm oil industry workers in Malaysia and Indonesia are victims of serious labor exploitation, constituting modern forms of slavery.7

» Health hazards: Southeast Asia suffers annually from fire haze resulting from the deliberate burning of forest to develop palm oil plantations, causing major public health impacts across Malaysia, Indonesia and Singapore.8

GOVERNANCE RISKS

» Bribery: Companies may be engaged in bribery and corruption at the local, regional or national levels, often in relation to concession licensing and permitting processes. Corruption in Indonesia’s forestry industry has cost the government 2 billion USD annually; 9

» Illegal activity: Typical illegalities in the sector include flouting of national laws designating what forest landscapes are permitted for development, failure to adhere to restrictions on the size and species for permitted logging, operating outside of permitted areas, beginning operations in areas prior to completing full environmental and social assessments;

» Economic/Financial crime: Practices such as tax evasion, transfer pricing, and money laundering are a major source of illicit financial flows out of Southeast Asia;

» Reputational harm: Illegal and/or unethical business standards can give rise to lasting reputational damage that can have a significant financial effect on shareholder value.

References can be found in Rainforest Action Network’s report The Financial Sector and Japan’s Corporate Governance Code available at http://www.ran.org/japan corporate governance

Photo: Shutterstock
FOREST-RISK SECTOR FINANCING IN SOUTHEAST ASIA

Forestsandfinance.org identifies the financial flows supporting 50 forest-sector companies whose operations impact natural tropical forests in Southeast Asia. The research attempts to segregate and present the investment that can be reasonably attributed to the production or primary processing operations of these companies that are active in palm oil, pulp & paper, rubber or tropical timber.

The research found that between 2010 and 2015 at least USD38 billion worth of corporate loans and underwriting facilities were provided to the forest-sector operations of the 50 companies in the study. The banks most involved include Malayan Banking, CIMB, DBS, OCBC, Mizuho Financial, Sumitomo Mitsui Financial, Mitsubishi UFJ, HSBC, Standard Chartered, JP Morgan, China Development Bank, Bank Mandiri and Bank Negara Indonesia.

The forest operations of the 50 forest-sector companies were supported by an additional USD14 billion worth of bond and shareholdings as of the start of 2016. The major investment funds identified include Malaysia’s Permodalan Nasional Berhad and Employees Provident Fund, The United Kingdom’s Silchester International Investors and Prudential, Singapore’s Temasek, and US-based Vanguard, Blackrock and Dimensional Fund Advisors.

Corporate loans and underwriting by country and sector, 2010-15 (USD billion)

Banks from Malaysia, China, Japan, Indonesia, Singapore and Europe are the biggest financiers of 50 selected forest-risk sector companies in Southeast Asia.

Banks are listed in terms of their exposure to the sector (above). Bank pop-up summaries reveal major forest-risk clients and an assessment of each bank’s policies in place to safeguard against key forest-sector ESG risks (right).
WHY FINANCE MATTERS
The financial sector has a unique role to play in supporting the global transition towards a sustainable, responsible and stable economy. A sustainable financial system must respect the rights of all people and the planet’s ecological limits, while fulfilling the economic needs of present and future generations. However, this research demonstrates that the financial system continues to work against bold but essential public policy agendas at the national, regional and global level, which seek to end tropical deforestation, protect vulnerable communities, promote sustainable development and combat global climate change.

RECOMMENDATIONS
Robust ESG standards and due diligence processes by banks and investors are needed to turn the tide on the devastating social and environmental impacts endemic to the forest-risk commodity sectors in Southeast Asia. However, financial institutions will need to move faster, in larger numbers, across more regions, and adopt uniformly higher ESG standards than has occurred to date. Financial sector regulation has a critical role to play in accelerating and shaping this agenda, in order to ensure the economy serves public policy objectives.

Financial sector regulators in all major financial centres should:
» Develop stronger financial sector regulatory oversight and compliance mechanisms in support of environmental and social public policy objectives;
» Require financial institutions to report annually against the Global Reporting Initiative (GRI) G4 Financial Services Sector Disclosure Framework;
» Require financial institutions to adopt and disclose robust ESG safeguard policies and enhanced due diligence procedures, with detailed guidance for specific sectors with high ESG risks, such as forest sector commodities (priority forest-sector risks are indicated below in bank and investor recommendations);
» Strengthen requirements on financial institutions to proactively identify and notify regulators of any financial transactions suspected of being associated with forest-sector corruption.
» Implement a credible and transparent monitoring and investigation mechanism on ESG compliance issues for complaints against Financial Institutions.
» Introduce penalties and fines for financial institutions and their board members for non-compliance with the above regulations and requirements.

Banks and investors should:
» Report annually against the GRI G4 Financial Services Sector Disclosure Framework;
» Elaborate and disclose ESG policies and standards for any financial services provided to producers and associated supply chain actors in forest-risk commodity sectors, covering relevant risk factors and exclusions, including: no deforestation, protections of biological diversity and High Conservation Value Areas (HCVs), prohibitions on plantation expansion on peatlands, relevant greenhouse gas emissions management measures, Free Prior and Informed Consent (FPIC) procedures for activities impacting customary land rights of local communities, conformance with international ILO and Human Rights conventions and norms, and monitoring, verification and dispute resolution mechanisms;
» Ensure environmental and social impact due diligence procedures and requirements are integrated across all business lines, competently staffed and supported, and implementation incentivized;
» Include environmental and social safeguard requirements as covenants in financing agreements;
» Engage with companies across forest-risk commodity value chains to support improved transparency, independent monitoring, supply chain traceability, adoption of sustainable production practices, and remedy for social and environmental harms arising from their activities;
» Support the establishment of harmonised financial sector regulations that seek to address forest-sector financing harms, as described above.

ABOUT THIS PROJECT
Forestsandfinance.org is the result of research and investigations by a coalition of campaign and research organisations including Rainforest Action Network, TuK-Indonesia, and Profundo. Collectively, they seek to achieve improved financial sector transparency, policies and systems that ultimately prevent financial institutions from supporting the kind of environmental and social abuses that are all too common in the operations of many forest-risk sector clients. The website, data, policy analysis and case studies will be updated quarterly. Details on the project, data sources and methodology can be viewed at forestsandfinance.org.

Publication Date: September, 2016