
# Is Your Money Destroying Rainforests or Violating Rights?

**forestsandfinance.org** reveals the finance flowing into commodities driving deforestation and land degradation in Southeast Asia, Central and West Africa, and Brazil

**It features:**

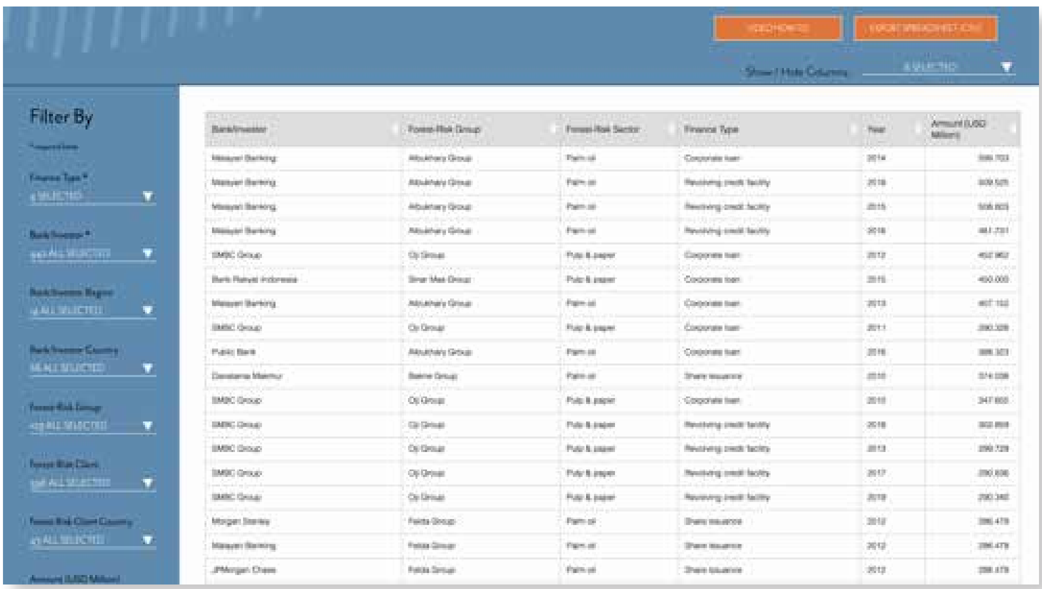
» a searchable database on financier-client deals from 2013 onwards

» scorecards on bank policies as relevant to forest-sector environmental, social and governance (ESG) risks

» case studies on clients linked to deforestation and human rights abuses

## Explore the Data

Search the database to discover the links between banks, investors and forest-risk commodity 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.



## Materiality of ESG Risks in Tropical Forest-risk Commodity Sectors

Protecting the world's tropical forests in Southeast Asia, the Amazon and in Central and West Africa is critical for achieving the Sustainable Development Goals and maintaining a habitable planet. But they are rapidly being destroyed. Tropical forests regulate global rainfall patterns; sequester and store carbon; enable over 1 billion people to meet their basic needs for food, water, shelter and medicines; and safeguard the majority of the Earth's remaining terrestrial biodiversity. Studies show that the fragmentation of forest ecosystems also contributes to the rise in zoonotic diseases like Covid19 and Ebola. The protection of forests is therefore critical for global public health.

However, tropical tree cover loss has nearly doubled over the past 10 years. In 2019 alone, 11.9 million hectares of tropical forests were lost.  The primary cause is the clearance of land for agriculture, often done illegally. In Southeast Asia, palm oil, pulp and paper, and the expansion of industrial rubber and logging operations are the main drivers of deforestation and forest degradation. In Brazil, the expansion of pastures for beef production, the exploitation of timber, and the expansion of other commodities like soy and pulp and paper, are key drivers of deforestation and land degradation. In Central and West Africa, the exploitation of timber and the production of rubber are the among key sectors driving deforestation.

The IPCC estimates that 11% of global greenhouse gas (GHG) emissions come from deforestation and degradation making it a major cause of climate change. However, protecting these critical carbon sinks has the potential to reduce GHG emissions by nearly a third making it one of the most effective mitigation measures. The forest-risk sector is also associated with serious human rights violations as a result of land conflicts with Indigenous and local communities and exploitative labor practices, and has strong ties to corruption, tax evasion and organized crime. For example, the international policing body INTERPOL estimates that illegal timber alone generates up to USD 100 billion annually, laundered through the international financial system.

In addition to the devastating environmental and social harms caused, banks and institutional investors that finance forest-risk commodity companies are increasing financial risk to shareholders and investors. (see below).

### ESG ISSUES

**ENVIRONMENTAL**

- GHG emissions from forest and peat loss
- Biodiversity loss
- Land and ecosystem degradation
- Water, air, and soil disruption

**SOCIAL**

- Community conflict and violence
- Land rights violations
- Displacement
- Child labor, forced labor, and human trafficking
- Health hazards from haze and chemical exposure

**GOVERNANCE**

- Bribery
- Illegal activity
- Economic/financial crime: tax evasion, money laundering, transfer pricing

### FINANCIALLY MATERIAL SUPPLY CHAIN RISKS

**OPERATIONAL RISK**

Loss of productivity, work stoppages, property damage, increased staff costs to deal with conflicts, etc.

**REGULATORY RISK**

Inability to adapt to changes in and/or breach of regulations related to GHG emissions, forests, peat, labor, land tenure and governance, etc.

**REPUTATIONAL RISK**

Damage to brand value and loss of social license to operate due to NGO campaigns or media exposés

**LEGAL RISK**

Litigation for failure to manage ESG risks, resulting in retraction of operating permits, fines, compensation costs, or confiscation of land, etc.

**MARKET RISK**

Cancelled contracts or decrease in consumer demand from failure to meet buyer standards, i.e. No Deforestation, No Peat, No Exploitation (NDPE) Policy

### RISKS TO INVESTORS AND BANKS

**FINANCIAL RISK**

(INVESTORS)

- Loss of capital due to i.e. stranded assets.
- Negative return on investment (ROI)

(BANKS)

- Nonperforming loans / increased default risk
- Loss of revenue

**REGULATORY RISK**

- Inability to meet new requirements on the inclusion of ESG risk criteria in due diligence and risk weighting
- Failure to disclose ESG risks in portfolio

**LEGAL RISK**

- (INVESTORS) potential breach of fiduciary duty from failure to integrate ESG
- Accountability for ESG impacts under OECD Guidelines

**REPUTATIONAL RISK**

- Damage to brand value due to NGO campaigns or media exposés
- Breach of ESG commitments / policies (i.e. UN PRI, Equator Principles)
- Loss of credibility as a responsible investor/ bank

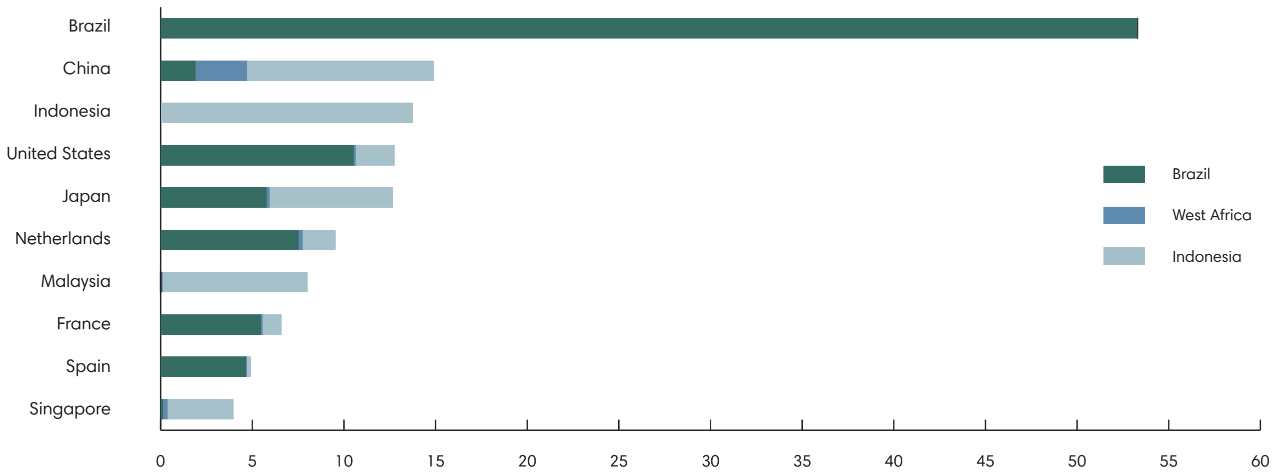
## Global Trends in Forest-risk Sector Financing

In the first ever analysis of global financing linked to tropical deforestation across all 3 tropical forest basins, forestsandfinance.org has identified the financial flows into over 300 major forest-risk commodity companies whose operations impact tropical forests in Southeast Asia, Brazil and in Central and West Africa. Based on a carefully crafted Methodology, the research segregates and calculates credit and investment that can be reasonably attributed to the production, primary processing, trading and manufacturing divisions of companies with forest-risk operations in each tropical forest basin.

- **51,136** financial deals identified
- **USD 153.9 billion** in credit since the Paris Climate Agreement
- Investment of **USD 37.2 billion** in 2020 (April)

Between 2016-2020 (April) forest-risk commodity companies in the three tropical forests regions received over USD 153.9 billion in credit, with the largest amount, USD 95.2 billion, flowing to Brazil, followed by USD 54.2 billion to Southeast Asia and USD 4.5 billion to Central and West Africa. Financiers from Brazil were the largest lenders, much of it funneled through Brazil's Agriculture Finance Program (Crédito Rural) which accounted for 52% of Brazil's total lending.

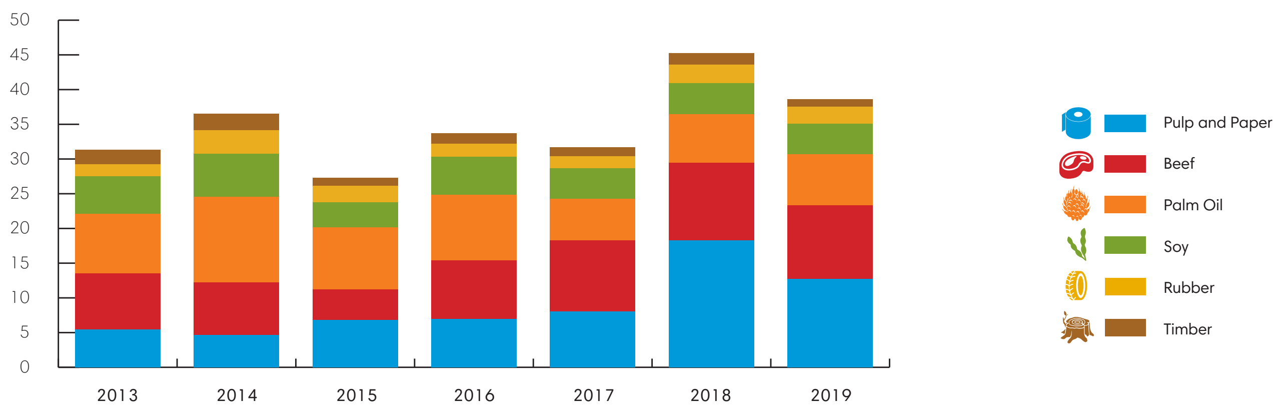
**FIGURE 1: Total Credit by Financier Country and Basin,** 2016-2020 (April) (USD billion)




Overall, credit to the forest-risk sectors has increased by 40% since the Paris Agreement was signed in 2015.

**Largest recipient of credit:** **Pulp & Paper Sector**

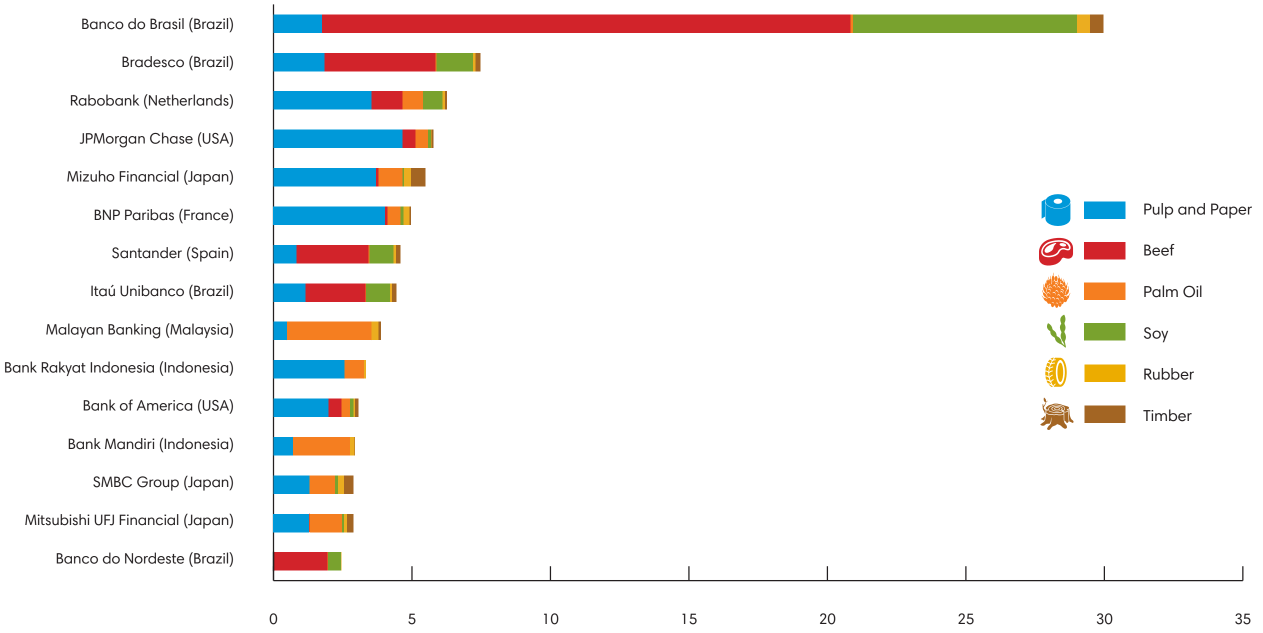
**FIGURE 2: Credit Trends by Year and Sector,** 2013-2019 (USD billion)



The top 15 banks with the greatest global exposure accounted for 59% of total forest-risk sector financing between 2016 and 2020. Eight of these are signatories to the UN's Principles for Responsible Banking, which seeks to align banks' business strategies with the Paris Agreement and Sustainable Development Goals, including SDG 15 to "halt deforestation [and] restore degraded forests" by 2020.

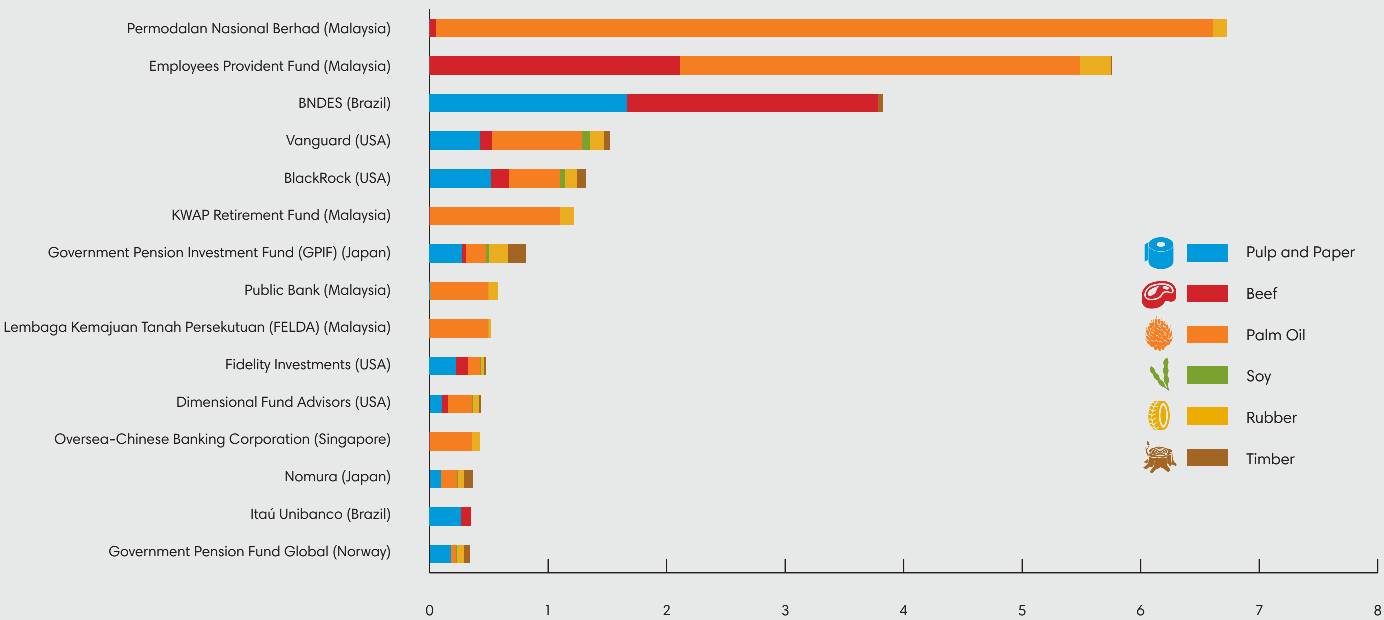
Many of the banks headquartered in the US, Japan and Europe, most notably JPMorgan Chase, Bank of America and MUFG, are also some of the largest financiers of fossil fuels.

**FIGURE 3: Top 15 Global Creditors by Sector,** 2016-2020 (April) (USD billion)




The largest sector for investment is the palm oil sector, with USD 20 billion (April 2020). The investors most exposed include several public funds, with Malaysia's institutional investors leading with USD 13 billion, largely invested in the palm oil sector in Southeast Asia. Of the 15 largest global investors, 9 are members of the UN Principles for Responsible Investment. In addition to direct investments in publicly listed palm oil companies, these funds hold shares in Malaysia's banks like Maybank and CIMB, which are amongst the biggest palm oil financiers globally.

**FIGURE 4: Top 15 Global Investors by Sector,** 2020 (April) (USD billion)



BASIN OVERVIEW: **Brazil**

**PHOTO:** Victor Moriyama / GREENPEACE

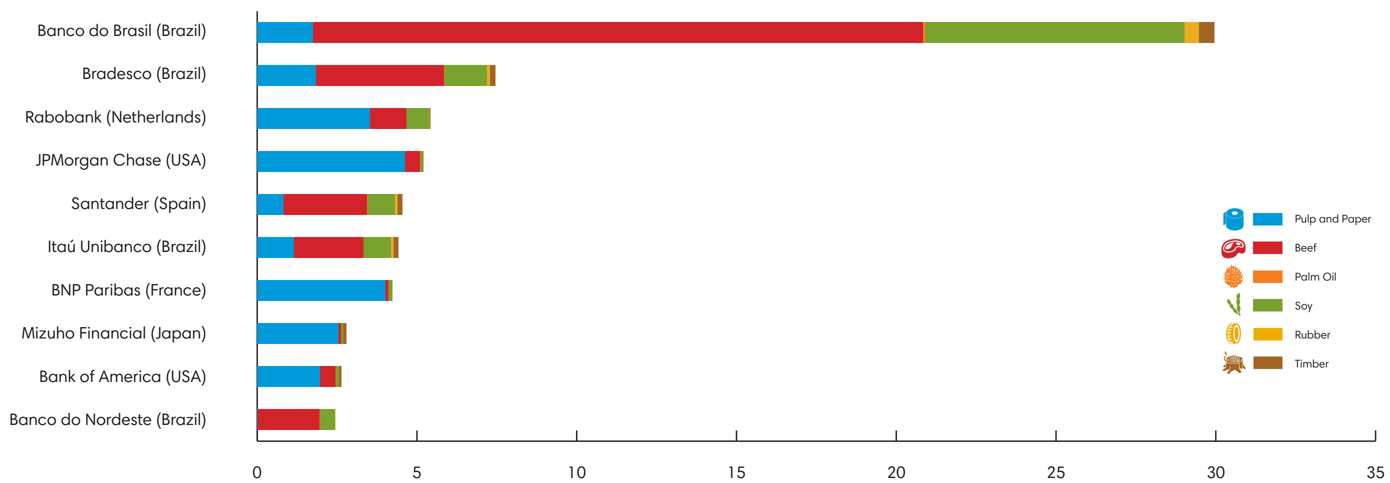
## Forest-risk Sector Financing in Brazil

Deforestation in the Amazon is on the rise. It increased by 134% in 2019, compared to the previous year, and is expected to rise again in 2020. Over the past two decades, the Brazilian Amazon has lost over 24 million hectares of primary forest. The exploitation of timber and the expansion of the agricultural frontier, especially the beef sector, are the main drivers of deforestation. In 2008, a resolution was passed that restricted access to the government's agricultural finance program (rural credit), to ensure that this money was not contributing to deforestation. This resolution has been credited for saving thousands of square kilometers of Amazon forest, showing the important role finance plays in preventing deforestation.

The database shows that the beef sector in Brazil attracted 43% of the assessed credit that went to Brazil, making it the largest forest-risk sector.

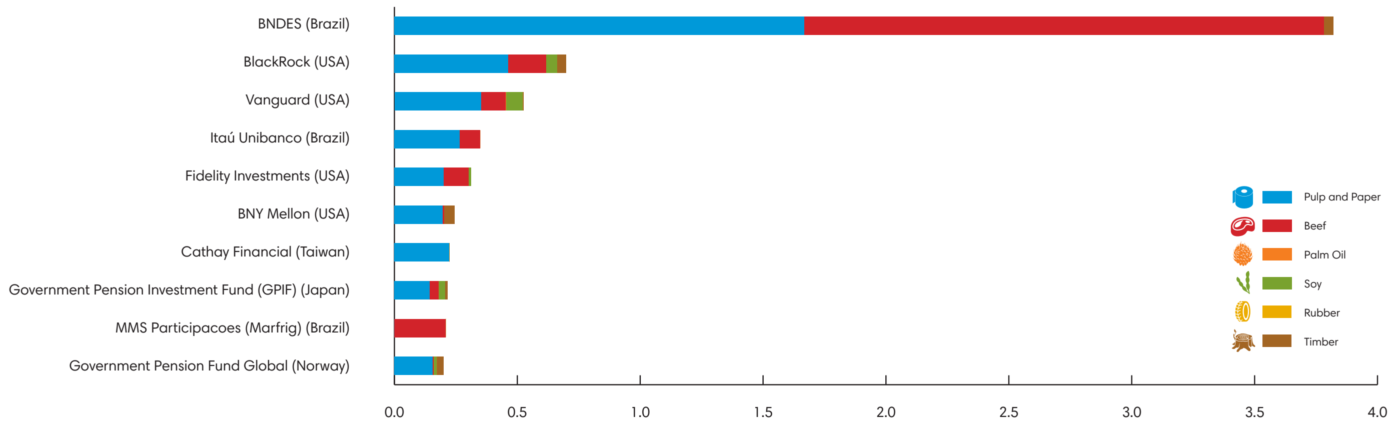
Pulp & Paper giant Suzano was the single largest recipient of both credit (USD 28.6 billion) and investment (USD 5.1billion), followed by meat packers Marfrig (USD 3.3 billion credit) and JBS (USD 3.6 billion investment) and the pulp and paper producer Klabin (USD 2.6 billion credit and almost USD 1 billion in investment).

**FIGURE 5: Top 10 Creditors by Sector, in Brazil,** 2016-2020 (April) (USD billion)




- The largest sector for credit is beef, with **USD 41 billion**
- Banco do Brasil is by far the largest provider of credit to forest-risk commodity companies in Brazil (**USD 30 billion**) due to its role as the largest operator of Brazil's Agriculture Finance Program (Crédito Rural).
- The BNDES was by far the largest provider of investment to forest-risk companies operating in Brazil (**USD 3.8 billion** in April 2020). More than half of its investments were made in the beef sector, and little less than half was invested in the pulp and paper sector.
- The top 10 investors in forest-risk companies in Brazil also includes 4 major US based investors.

**FIGURE 6: Top 10 Investors by Sector, in Brazil,** 2020 (April) (USD billion)




# BASIN OVERVIEW: **Southeast Asia**

**PHOTO:** Paul Hilton / RAN

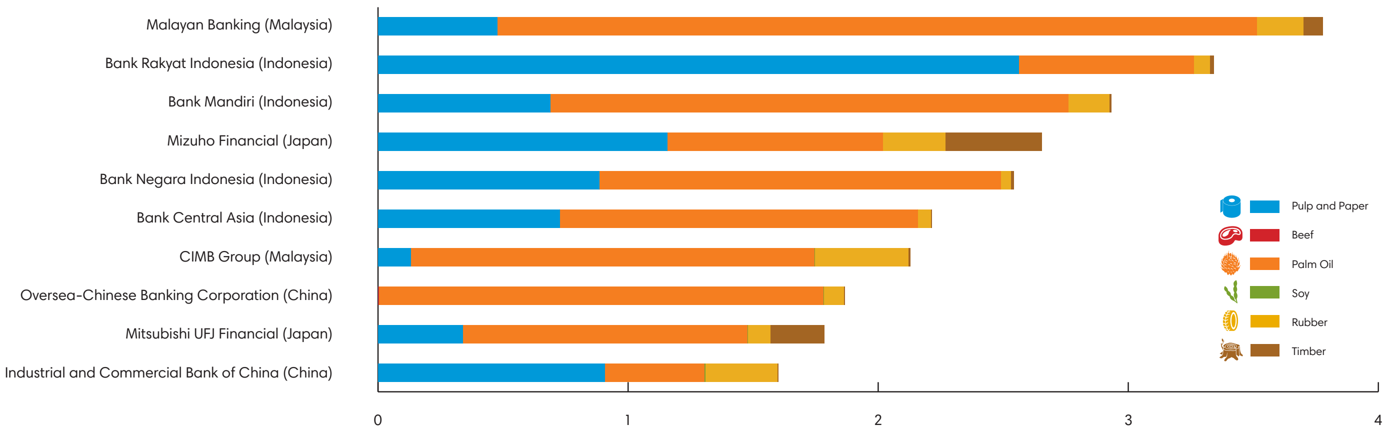
## Forest-risk Sector Financing in Southeast Asia

**Scope of company operations:** Indonesia, Malaysia, Thailand, Cambodia, Laos, Vietnam

Rainforests in Southeast Asia continue to dwindle, and nowhere is this more evident than in Indonesia. Over the past two decades, Indonesia has lost nearly 25 million ha of tree cover, with over 9.2 million ha of primary forests lost forever. In 2018 alone, over 339,888 hectares of primary forests were destroyed. Similarly, vast areas of Indonesia's 22 million ha of carbon-rich peatlands have been drained and converted. The degradation of flammable peatland areas has catalysed Indonesia's annual fire and haze crisis. In 2019, these fires emitted significantly more greenhouse gases than the fires in the Amazon. Deforestation and peatland conversion are primarily driven by the expansion of industrial pulpwood and palm oil plantations. Despite Indonesia's Financial Services Authority (OJK) launching a roadmap for Sustainable Finance in 2015, banks continue to finance unsustainable forest-risk sectors with a litany of major systemic ESG risks.

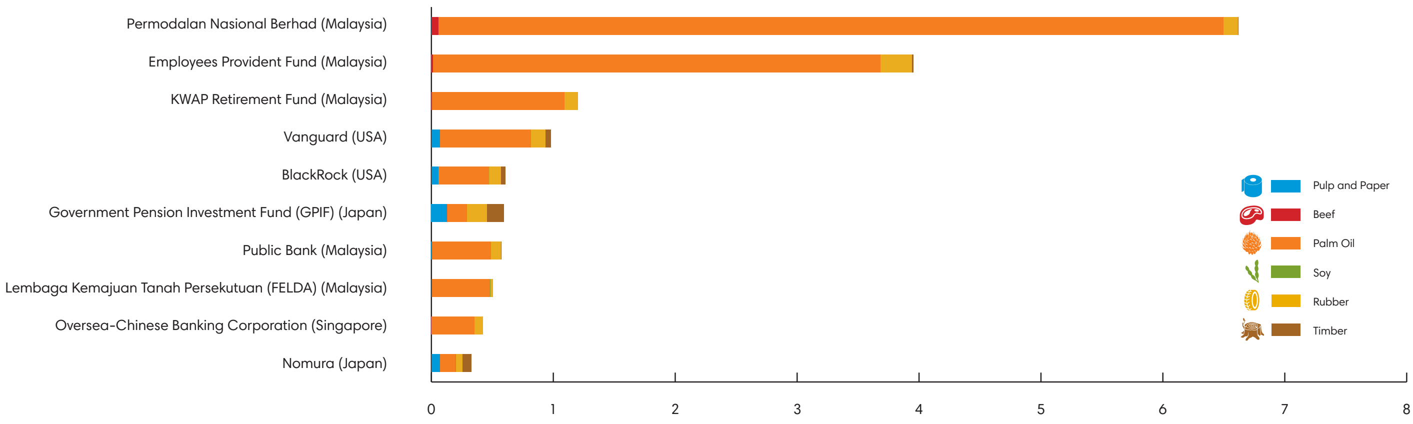
Pulp & Paper and palm oil giant Sinar Mas was the single largest recipient of credit (USD 15.3 billion) in Southeast Asia, in the period between 2016 and 2020 (April). It is followed by Salim Group (USD 4 billion), and Royal Golden Eagle Group (USD 3.4 billion). Sime Darby Plantations was the largest recipient of investments (as of April 2020), with USD 7.1 billion, followed by IOI Group (USD 4.2 billion) and Batu Kawan Group (2.2 billion).

**FIGURE 7: Top 10 Creditors by Sector, in Southeast Asia,** 2016-2020 (April) (USD billion)



Largest sector for credit: Palm Oil, with **USD $29 billion**

**FIGURE 8:** **Top 10 Investors by Sector, in Southeast Asia** 2020 (April) (USD billion)




**82% of investments are in palm oil**

BASIN OVERVIEW: **Central and West Africa**

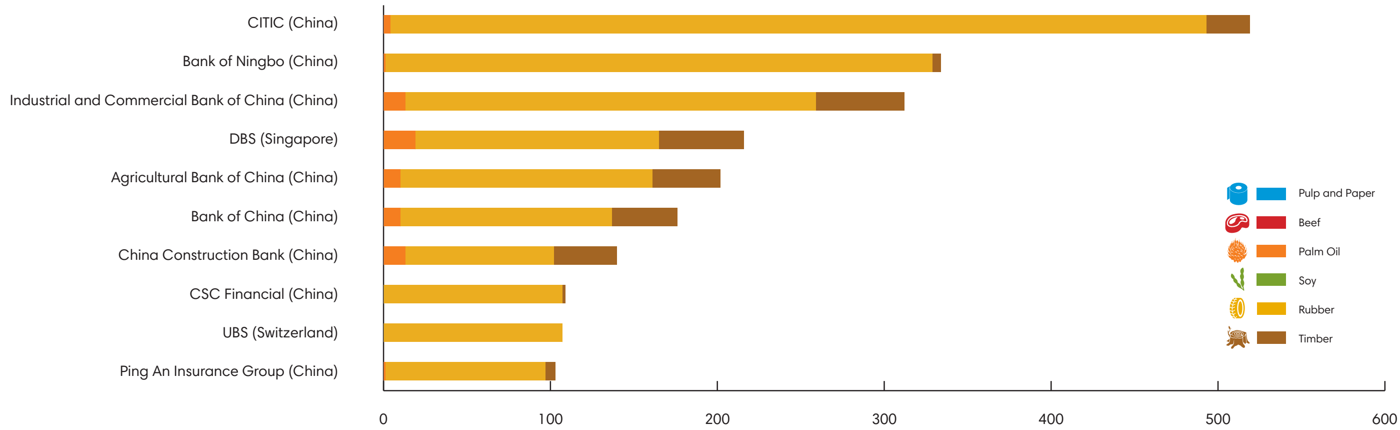
PHOTO: banjongseal324 / SHUTTERSTOCK

## Forest-risk Sector Financing in Central and West Africa

**Scope of company operations:** Cameroon, the Republic of Congo, Gabon, Nigeria, Liberia, Democratic Republic of Congo, Sierra Leone, Ivory Coast, and Ghana

**The largest recipients of credit in Central and West Africa were Rubber giant Sinochem (USD 2.7 billion), Olam (USD 0.6 billion) and COFCO (USD 0.5 billion)**

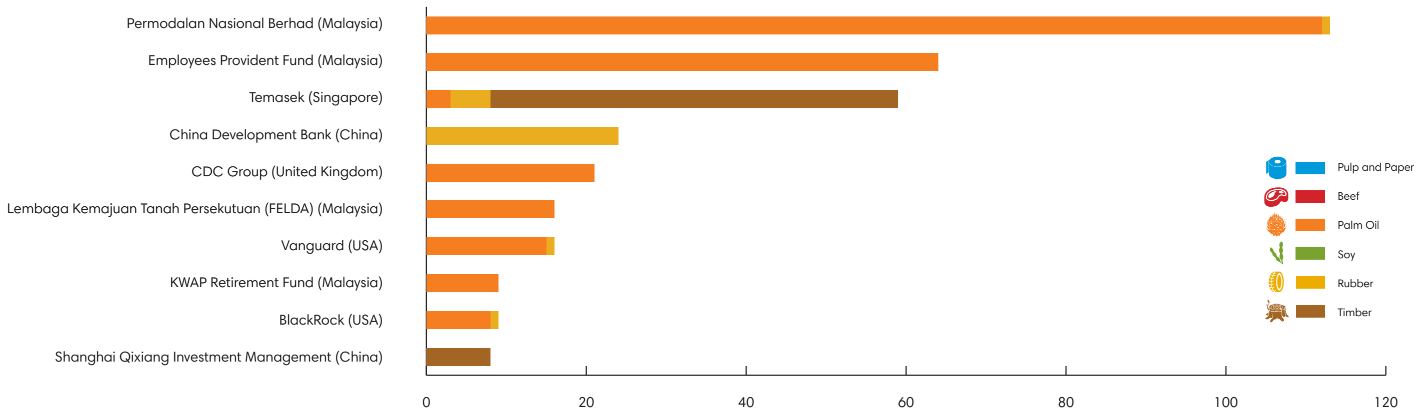
**FIGURE 9: Top 10 Creditors by Sector, in Central and West Africa** 2016-20 (April) (USD million)




**Largest sector attracting credit:**  **Rubber, with USD $2.8 billion**

The largest companies to attract investment were Batu Kawan (USD 137 million), Sime Darby Plantations (USD 124 million) and Sinochem (USD 93 million)

**FIGURE 10: Top 10 Investors by Sector, in Central and West Africa** 2020 (April) (USD million)



## 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., Financial institutions 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 adopt and disclose robust ESG safeguard policies, enhanced due diligence procedures, and impacts of their financing, with detailed guidance for specific sectors with high ESG risks, such as the forest-risk sector;
- Strengthen requirements on financial institutions to proactively identify and notify regulators of any financial transactions suspected of being associated with forest-risk sector corruption;
- Implement a credible and transparent monitoring and investigation mechanism on ESG compliance issues for complaints against financial institutions;
- Require financial institutions to report annually against the Global Reporting Initiative (GRI) G4 Financial Services Sector Disclosure Framework and Task Force on Climate-related Financial Disclosures, inclusive of land use emissions resulting from financing;
- Introduce penalties and fines for financial institutions and their board members for non-compliance with the above regulations and requirements.

### Banks and investors should:

- Adopt, disclose, and implement ESG policies and standards for all financial services provided to producers and associated supply chain actors in forest-risk commodity sectors, and require client compliance at a corporate group level. Policies should include: No Deforestation, No Peatland and No Exploitation (NDPE) criteria, prohibitions on use of fire for land clearing, legality in operations and sourcing, Free Prior and Informed Consent (FPIC) procedures for activities impacting Indigenous and customary land rights of local communities, conformance with international ILO and Human Rights conventions and norms, anti-bribery and anti-tax evasion, and monitoring, verification and dispute resolution mechanisms;
- Enact zero tolerance procedures within financing portfolios to prevent violence, criminalization, intimidation, and killing of human rights, land, and environmental defenders.
- 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;
- Know and publicly disclose the footprint of financial services impacting forests, peatlands and the rights of Indigenous Peoples and communities affected by logging and the expansion of industrial agriculture. Report annually against the GRI G4 Financial Services Sector Disclosure Framework and the Task Force on Climate-related Financial Disclosures, inclusive of land use emissions resulting from financing;
- Support the establishment of harmonised financial sector regulations that seek to address forest-risk 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, Profundo, Repórter Brasil, Amazon Watch and BankTrack. 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 content of the website is updated on a regular basis. Details on the project, data sources and methodology can be viewed at forestsandfinance.org.

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