



# FORESTS & FINANCE

## BRIEFING

### **Japanese, Chinese, Malaysian and Indonesian banks remain largest financiers of forest-risk companies in Southeast Asia - some progress made in ESG financing policies, but not nearly enough**

December 2018

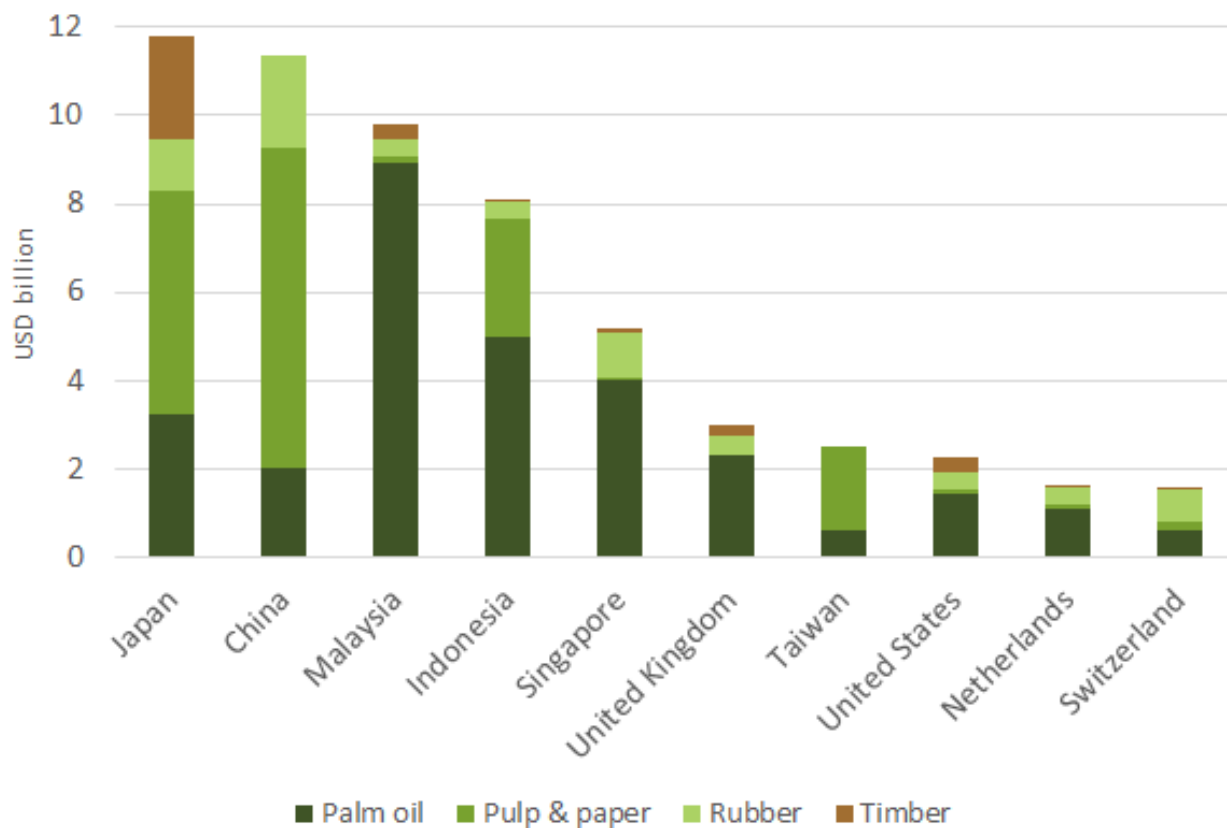
Originally launched in September 2016, [forestsandfinance.org](https://forestsandfinance.org) provides an unrivalled transparency platform and searchable database revealing the banks and investors that are financing companies impacting Southeast Asia's tropical forests. The site has been updated to include financing amounts inclusive of 2018 and a detailed assessment of existing bank policy standards across a range of environmental, social and governance indicators, providing a comparison between forest-risk sector policies for over 30 of the largest banks.

#### **1. LOANS & UNDERWRITING**

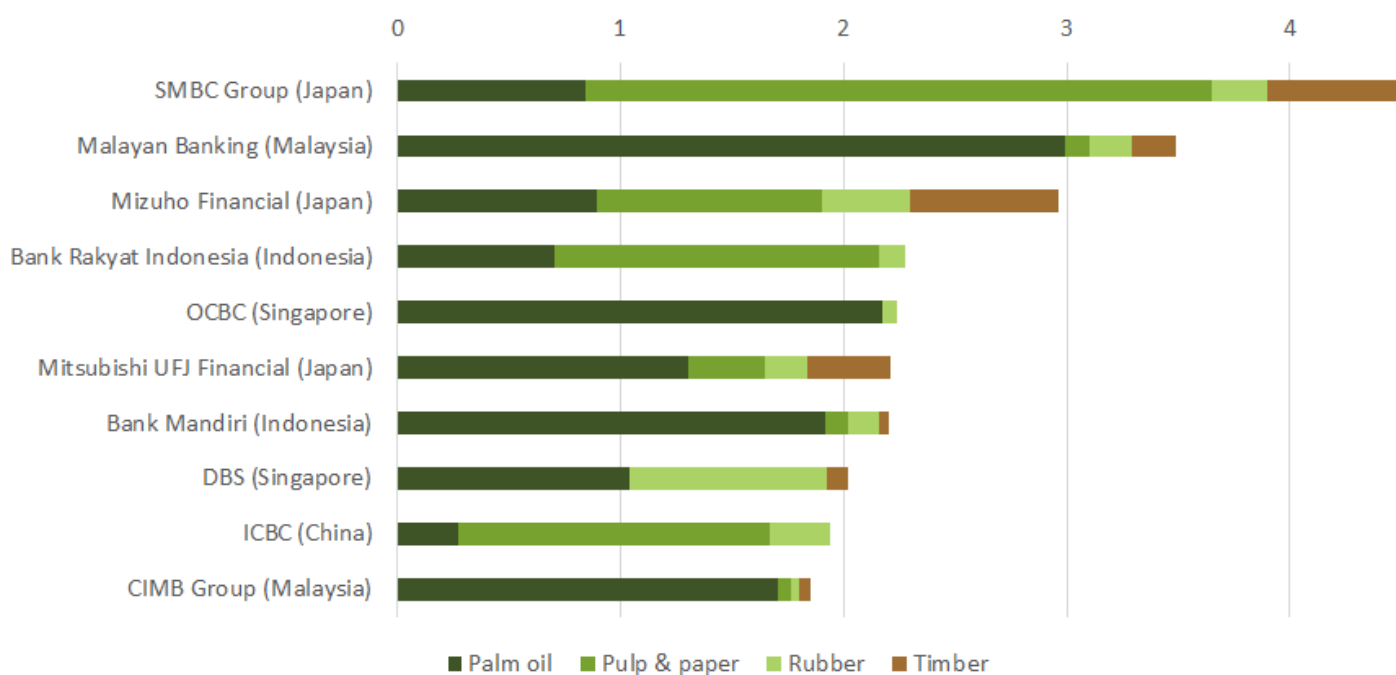
The new research finds that from 2013 to 2018 (June) USD 62 billion worth of corporate loans, revolving credit facilities as well as underwriting of bond and share issuances were provided to the forest-risk sector operations of the 103 companies in the database.

Year on year, financing to the sector has slightly declined, but banks headquartered in Japan, China, Malaysia, Indonesia and Singapore continue to be heavily exposed to the sector. Companies receiving the largest amounts of finance include Sinar Mas Group, Sinochem Group, Royal Golden Eagle Group, [Oji Group](#) and [Wilmar Group](#). See below.

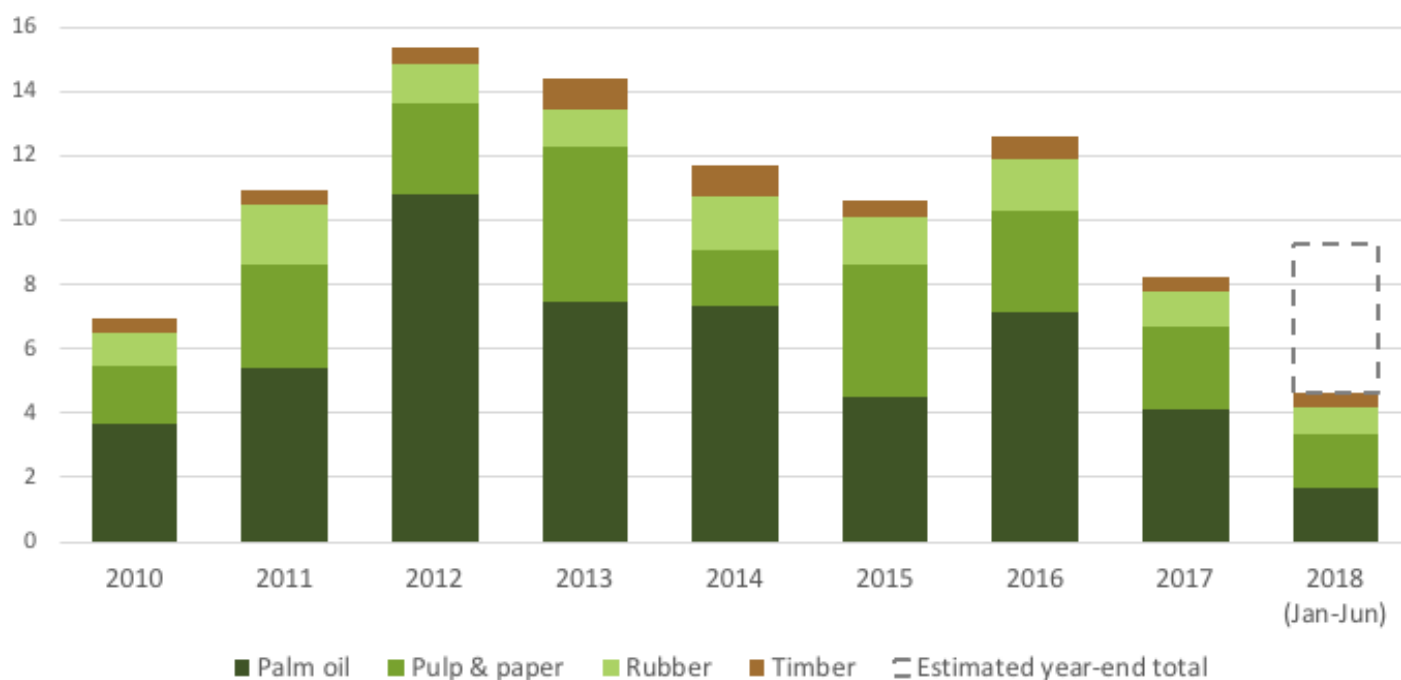
## Loans & underwriting by investor country and sector, 2013-2018 (June) USD billion



## Top 10 Creditors & Underwriters, 2013-2018 June (USD billion)



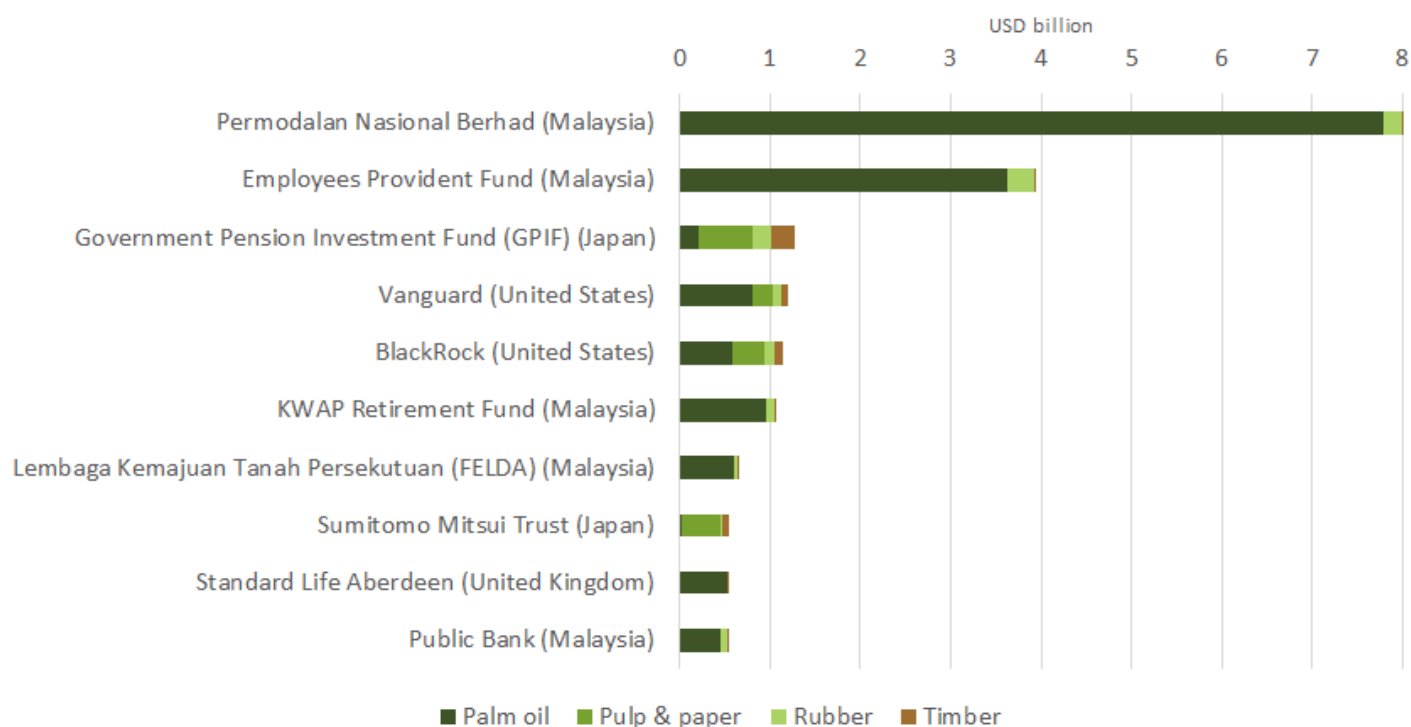
## Loans & underwriting by year and sector, 2010-2018 June (USD billion)



## 2. BONDS & SHAREHOLDINGS

The forest-risk sector companies were supported by an additional USD 31 billion worth of bond and shareholdings as of July 2018. Investors from Malaysia, Japan, Singapore, USA, and the UK were identified as the biggest investors.

### Top 10 Bondholders & Shareholders, July 2018 (USD billion)



### 3. BANKS' ESG FINANCING POLICIES

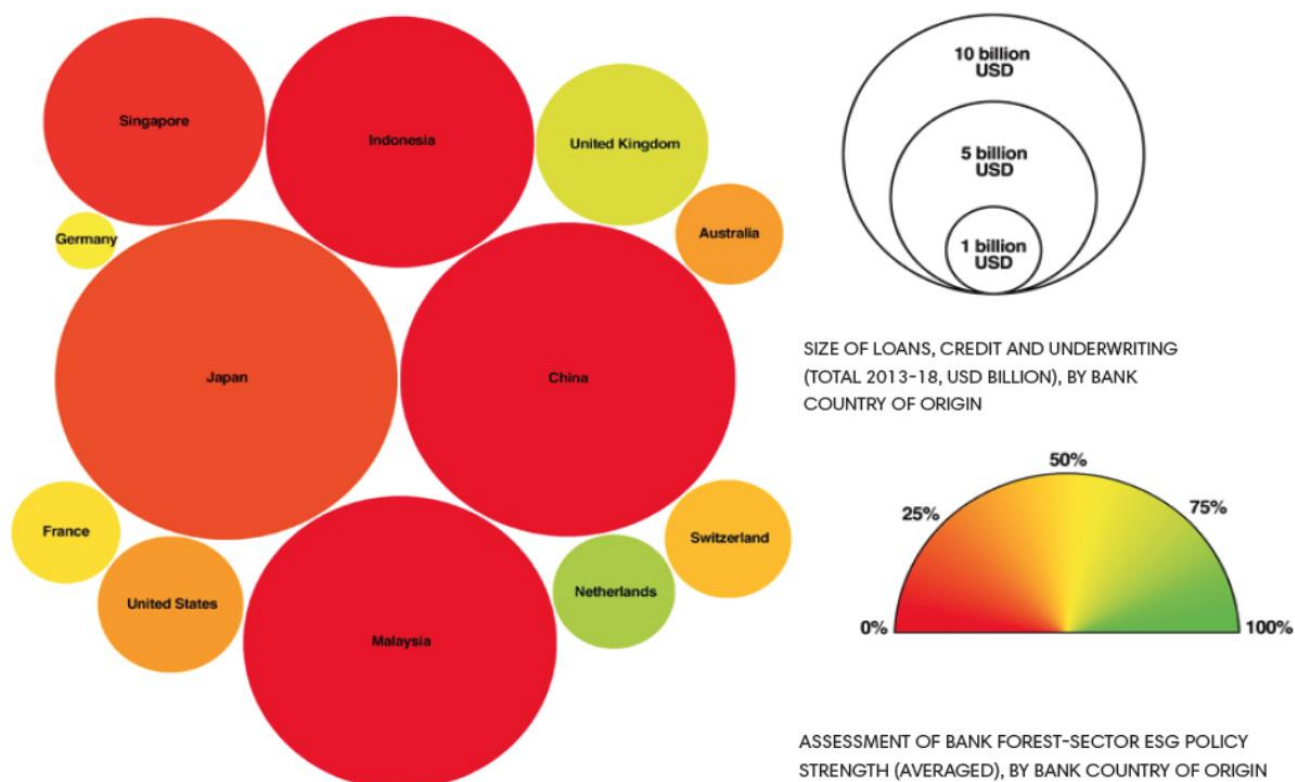
**Forestsandfinance.org** carried out a comprehensive assessment of the publicly available financing policies of 31 of the 35 most financially exposed banks in order to determine their ability to manage environmental, social and governance (ESG) risks in the forest-risk sector. Banks were scored against 25 ESG criteria for a maximum score of 50 points. The scores have been compiled into a useful comparative table [here](#).

The OECD Guidelines for Multinational Enterprises and the recent proposal for [Principles for Responsible Banking](#), reinforce the fact that banks which provide financial services to companies with serious environmental and social sustainability concerns have a responsibility to identify and address adverse impacts related to their financing. The adoption of strong ESG financing policies is a critical component.

Our research reveals that such due diligence measures are noticeably absent in the banks with greatest exposure to forest risks from 2013-2018 June - Malaysian (USD 10 billion, average policy score 0%), Chinese (USD 11 billion, average policy score 1%), Japanese (USD 12 billion, average policy score 28%) and Indonesian (USD 8 billion, average policy score 4%). In contrast, the highest scoring banks include [ABN Amro](#) and [Rabobank](#) from the Netherlands and [Standard Chartered](#) from the U.K.

Since our last policy assessment in September 2016, some notable policy assessment changes include the largest banks from Japan as well as DBS of Singapore. In particular, Japanese banks [SMBC Group](#) and [Mizuho Financial Group](#) adopted their first ever policies on the forest-risk sector, while [Mitsubishi UFJ Financial Group](#), the largest bank in Japan, established clear prohibitions and restrictions to their financing which include mitigating impacts on Indigenous Peoples and High Conservation Value areas. This is significant given all three banks' intentions to expand their business in Indonesia.

#### Average policy scores and financing by country



#### 4. SPOTLIGHT ON FOREST-RISK SECTOR CLIENTS

Below are three companies: Wilmar Group, Sumitomo Forestry and Bintulu Lumber Development (BLD), which have business operations linked to devastating environmental and social impacts which are all too common in the forest-risk commodity sector:

- **Wilmar Group** - As the world's biggest buyer and trader of palm oil products, Wilmar controls 43% of the global palm oil trade. Wilmar continues to face significant risk exposure to labor rights violations, unresolved land conflicts, illegal palm oil plantations, deforestation and high GHG emissions through its own operations, joint ventures, subsidiaries, associates and its extensive supply chain reach.

Despite Wilmar adopting a No Deforestation, No Peat, No Exploitation policy for all of its operations and third party suppliers in 2013, [a recent report by Greenpeace](#) exposed widespread noncompliance, especially in relation to its third party palm oil suppliers. Between 2015 and 2018 Wilmar received over USD 1.57 billion in corporate loans and underwriting, with DBS, Mitsubishi UFJ Financial, UOB, HSBC and SMBC Group most heavily financing.

In order to ascertain clients' implementation of their own policies, banks should require their clients to publish mill location data and concession maps for their supply chain to prove their producers are compliant with all aspects of its NDPE policy.

- **Sumitomo Forestry** - A major timber and building materials trading company in Japan, with forestry operations in Indonesia, Sumitomo Forestry has prominent creditors and underwriters, including Daiwa Securities, SMBC Group, Mizuho Financial Group, and Nomura Holdings, receiving almost 432 USD million in the last three years. Its largest investor is the Government Pension Investment Fund of Japan (GPIF). Sumitomo Forestry is one of the largest buyers of tropical plywood from Indonesia and was recently [exposed](#) for purchasing substantial volumes of timber derived from rainforest conversion and likely illegal logging by notorious timber giant [Korindo Group](#).
- **Bintulu Lumber Development (BLD)** - In the first 9 months of 2018, Malaysian palm oil company BLD cleared 1,702 ha of peat and 1,307 ha of peat forest on its plantation in Sarawak, Malaysia according to a Chain Reaction Research [briefing](#) in October. Despite many of BLD's downstream customers having No Deforestation, No Peat, No Exploitation (NDPE) policies, BLD products continue to appear in the supply chains of multiple traders and consumer goods companies, including AAK, ADM, Nestlé, Olam, IOI, Cargill, Louis Dreyfus Company, Lipsa and Reckitt Benckiser.

Since 2010 BLD has been financed predominantly by Malaysian financial institutions. RHB Banking and Maybank are its main financiers providing loans and underwriting of 69 USD million in the past

three years. Both these financial institutions scored 0 pt in the Forests & Finance policy assessments which means they have no forest-risk sector policy and lack any ESG safeguards to adequately identify and address adverse impacts related to financing destructive companies like BLD.

Summary of forestsandfinance.org methodology:

The database captures all known loans, underwriting services and investments received by 103 companies directly involved in the palm oil, pulp and paper, rubber and tropical timber (“forest-risk sector”) supply chains, whose operations impact natural tropical forests in Southeast Asia. Companies with additional business activities outside of the forest-risk sector had recorded amounts calibrated to more accurately present the proportion of financing that can be reasonably attributed to the forest-risk sector operations of the selected company (for more information, see our [Methodology](#)).

For further information on this briefing please contact [info@forestsandfinance.org](mailto:info@forestsandfinance.org)