

# PUSHING THE PARIS CLIMATE AGREEMENT OUT OF REACH:

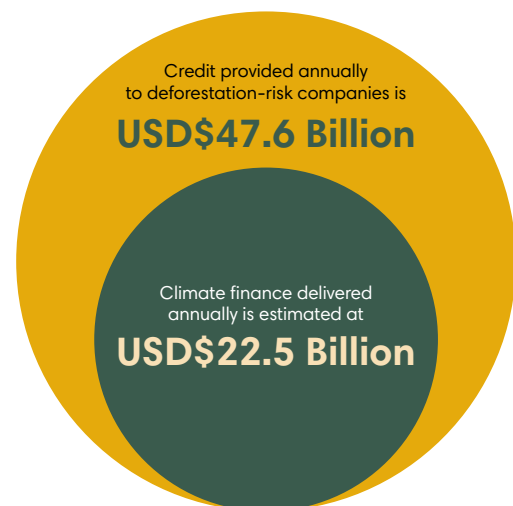
## The Countries Bankrolling Tropical Deforestation

This year's United Nations climate summit held in Glasgow – COP26 – has a major emphasis on finance. While communities and developing nations demand delivery of the resources needed to deal with climate impacts and to support the transition to a clean energy future, the global financial sector continues to pour billions of dollars a year into tropical deforestation, pushing public climate goals out of reach.

New Forests & Finance analysis reveals that since the adoption of the Paris Climate Agreement in December 2015, more than USD 238 billion in credit has been provided by commercial banks to just 300 companies involved in the production and trade of soft commodities driving tropical deforestation globally (palm oil, pulp & paper, rubber, beef, soy and timber). These companies were further funded by at least USD 41 billion in bond and share holdings, as of May 2021.

The overwhelming majority of money flowing to tropical forest-risk sectors is provided by financial institutions without adequate policies or due diligence processes to safeguard against deforestation or human rights violations. Left unaddressed, these financial flows will push the world beyond any hope of achieving even conservative climate goals.

**FIGURE 1. Deforestation-risk credit recorded through Forests & Finance (annual average since 2016) versus annual climate finance being delivered as part of the Paris Agreement<sup>1</sup>**

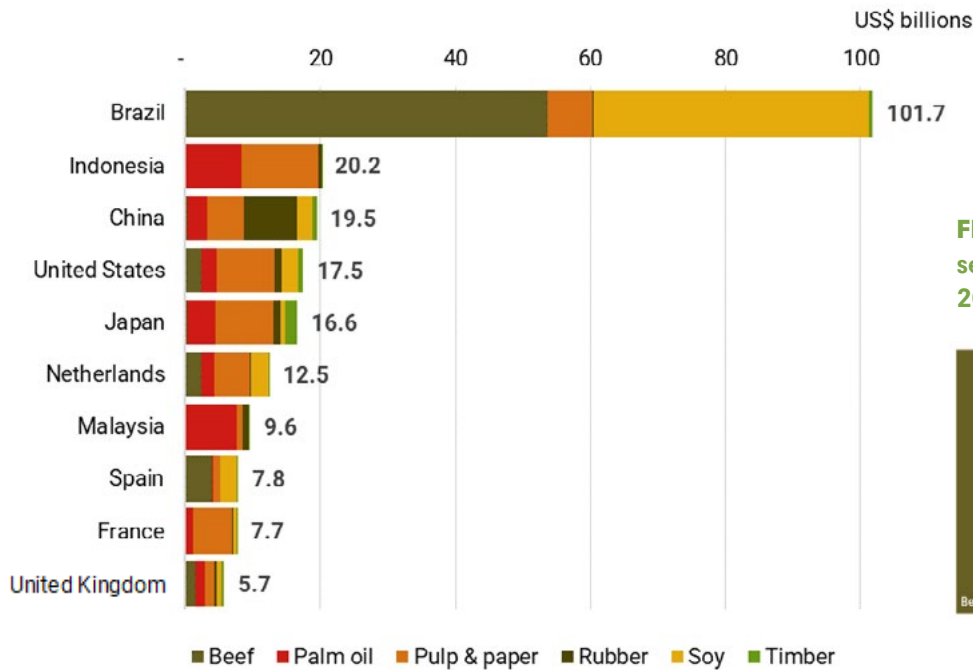


<sup>1</sup> Of the estimated \$59.5BN in public climate change finance reported by developed countries (annual average), climate-specific net assistance may be just \$19–22.5BN. This is the net financial value of climate finance to developing countries — the grant equivalent — less than half of what is reported by developed countries. (Source: Oxfam, 2020, *Climate Finance Shadow Report*)

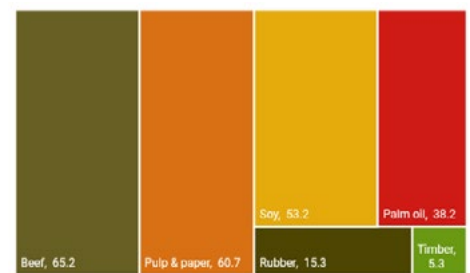


The banking sectors most responsible for financing tropical deforestation are those from Brazil, Indonesia, China, the United States and Japan.

**FIGURE 2. Creditors: Top 10 creditor countries by sector (January 2016 - June 2021)**

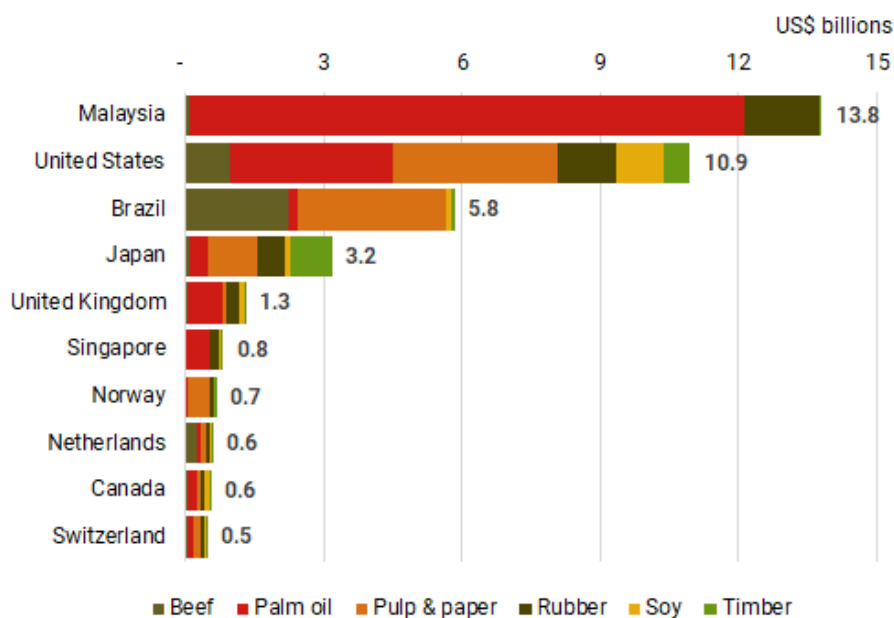


**FIGURE 3. Creditors: Total by sector (January 2016 - June 2021, USD billion)**

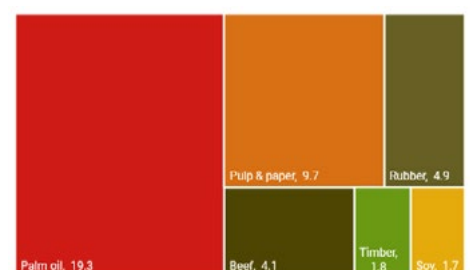


Institutional investors from Malaysia, the United States, Brazil, Japan and the United Kingdom are the frontrunners in tropical deforestation investments.

**FIGURE 4. Investors: Top 10 investor countries by sector (May 2021 filings)**



**FIGURE 5. Investors: Total by sector (May 2021 filings, USD billion)**





The 2021 Forests & Finance assessment of the environmental, social and governance policies of 200 financial institutions from some of the world’s biggest economies bankrolling deforestation reveals a very bleak picture. Banks and institutional investors from the 10 biggest sources of finance - by country - scored an average of only 2 out of 10 in terms of policy adequacy. The full assessment can be found at [forestsandfinance.org/bank-policies/](https://forestsandfinance.org/bank-policies/).

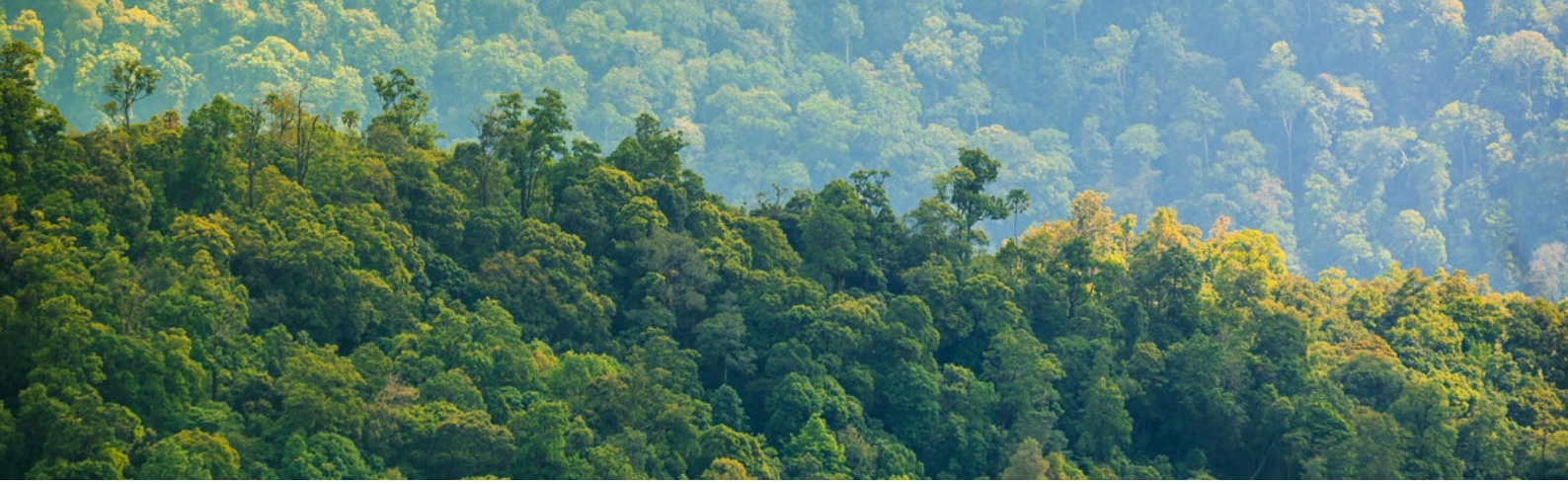
**TABLE 1. Country financial sectors driving tropical deforestation - a ranking of financing and policy standards (averaged by country)**

FINANCING				POLICY SCORE EXTRACTS (out of 10)						
Rank	Country	Total Credit (US\$BN)	Total Investment (\$USBN)	Average Overall Policy Score	Environment		Social		Governance	
					No Deforestation	No Peat	FPIC	No Exploitation	Sustainability Objectives	Disclosure of Forest Impacts
1	Brazil	101.7	5.8	1.2	2.5	0.9	0.2	1.7	4.8	0.0
2	Indonesia	20.2	0.1	1.0	1.0	1.0	0.2	0.9	5.4	0.0
3	China	19.5	0.1	0.4	0.3	0.3	0.2	0.2	4.2	0.0
4	United States	17.5	10.9	1.1	1.2	0.3	1.0	1.6	6.1	0.0
5	Japan	16.6	3.2	2.0	2.5	3.0	2.3	2.4	7.2	0.2
6	Netherlands	12.5	0.6	4.0	5.1	4.2	4.1	5.4	9.0	1.7
7	Malaysia	9.6	13.8	0.5	0.5	0.0	0.5	0.4	3.6	0.0
8	Spain	7.8	0.2	4.5	4.3	8.5	3.9	6.6	8.5	0.0
9	France	7.7	0.3	2.5	6.0	4.0	5.3	3.4	6.9	0.0
10	United Kingdom	5.7	1.3	3.0	3.4	3.2	3.6	4.0	8.0	0.0

While an increasing number of financial institutions claim sustainability objectives are integrated into governance structures, the assessment found that specific environmental and social safeguard policies are extremely weak, while meaningful disclosure is practically absent. It was observed that most financial institutions lack the necessary ambition or implementation required to result in the actual protection of forest ecosystems or respect for the rights of Indigenous People and other forest communities.

Given the widespread failure of the private financial sector to address risks associated with client lending and investment, governments must agree to strengthen and harmonise financial sector regulations (consistent with the recommendations on page 4). These should immediately prohibit the financing of fossil fuel expansion, deforestation and forest degradation. Safe climate pathways can only be achieved if there is policy coherence across public and private financial sectors.





## Beware 2050 'Net Zero' targets

In the lead up to COP26, there have been a raft of financial sector commitments promising action on climate and sustainability. While action by banks and investors on climate change and deforestation is critical, there are major concerns as to the urgency and adequacy of current 2050 commitments.

## The world cannot afford further government and corporate greenwash and delay. Financial sectors must:

- » Immediately end support to deforestation, forest degradation and fossil fuel expansion, as well as any economic activities violating human rights or indigenous self-determination
- » Publish a clear and actionable plan to phase out fossil fuel support overall as quickly as possible
- » Set-out interim targets (including 2025 and 2030 targets), aligned with the 2018 IPCC Special Report 'pathway 1' scenario, and ensure financed emissions (scope 3) are included in all targets
- » Exclude loopholes from accounting and reporting, such as offsetting, to ensure real emissions are reduced to as close to zero as possible

For further information on assessing financial sector climate targets, see the [\*Principles for Paris-Aligned Financial Institutions\*](#), released in September 2020 by more than 60 climate and rights groups from around the world.

For further information on Net Zero targets and associated risks to climate integrity, forests and Indigenous Peoples and forest-dependent communities, see the [\*Net Zero Files\*](#) by the CLARA initiative.

### About Forests & Finance

Forests & Finance is an initiative by a coalition of campaign and research organisations including Rainforest Action Network, TuK Indonesia, Profundo, Amazon Watch, Repórter Brasil, BankTrack, Sahabat Alam Malaysia and Friends of the Earth US. Collectively we seek to prevent financial institutions from facilitating environmental and social abuses via forest-risk commodity finance. We seek to achieve this through improved financial sector transparency, policies, systems and regulations.

**PUBLICATION DATE:** OCTOBER 2021 | **WEBSITE:** FORESTSANDFINANCE.ORG | **CONTACT US:** FORESTSANDFINANCE.ORG/CONTACT-US/

