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Financial institutions must not contribute to forest and peatland destruction and transboundary haze

As the climate and biodiversity crisis intensifies, credit to forest-risk commodity companies increased 60 per cent between 2020 and 2021.

A new report, released today by the Forests & Finance Coalition, whose members include the Rainforest Action Network, Profundo, TuK Indonesia, Bank Track, Amazon Watch, Reporter Brasil, Friends of the Earth US and Sahabat Alam Malaysia, finds that none of the largest banks and investors in the high-risk AFOLU (Agriculture, Forestry and Other Land Use) sectors have sufficient environmental, social and governance (ESG) policies. Forests & Finance hosts an unrivaled transparency platform which reveals the financial flows to the world's largest forest-risk commodity companies operating in tropical forests regions. The extensive, searchable dataset[1] has just been updated to include credit, bondholdings and shareholdings as of September 2022.

On the whole, the report finds that global bank policies continue to have inadequate policies to prevent the financing of deforestation, climate chaos and human rights abuses. Money keeps flowing to forest-risk commodity companies in a largely unrestricted way. Since the Paris agreement was signed, banks have pumped USD 267 billion into forest-risk commodity companies, and as of September 2022, investors held USD 40 billion in bonds and shares in forest-risk commodities.

"It is now well established that the twin crises of climate change and biodiversity loss pose a generational, planetary scale threat and yet, the world's financial institutions are actually increasing their lending to the very industries driving humanity to the brink," said Tom Picken, Forest and Finance Campaign Director with Rainforest Action Network and a founding member of the Forests & Finance Coalition[2]. "This latest assessment shows how big banks and institutional investors are blind to the urgency of the moment and financial sector policies remain dangerously inadequate. With the agriculture, forestry and land-use sector contributing 23 per cent of global carbon emissions, it is abundantly clear that we must overhaul the rules governing bank and investor decision-making if we are to meet the global climate, biodiversity and rights emergencies we face."

The new assessment of 200 of the largest banks and investors in global forest-risk commodities in tropical forest regions raises grave concerns. Overall, the average score was just 1.6 out of 10 and an alarming 59 per cent of financial institutions scored under 1, indicating an abject failure to manage and mitigate environment, social or governance risks. Just 3 financial institutions scored 7 or higher which still leaves substantial room for improvement and does not reflect the urgency with which the world must address climate change and biodiversity loss.

The briefer highlights the role of finance for two particularly forest destructive sectors: the pulp and paper sector in southeast Asia and the beef sector in the Amazon.

The Southeast Asian pulp industry can be linked to over 170,000 hectares of deforestation in the past years. Yet, since the Paris Agreement, the sector has attracted USD 23.6 million in credit. The largest five banks financing Royal Golden Eagle and Sinar Mas' pulp divisions in Southeast Asia between 2016 and September 2022 were: Indonesian Bank Rakyat Indonesia (USD 4.3 billion), Bank Mandiri (USD 2.7 billion), Bank Central Asia (USD 2.5 billion) and Bank Negara Indonesia (USD1.4 billion); and British Barclays (USD 2 billion). The average score for the pulp and paper policies of these banks was only 1.3 out of 10.

The Forests & Finance 2022 policy assessment of the largest banks and investors shows that the majority have no policies to prevent deforestation, peat degradation, fires, or uphold human rights, including the free, prior and informed consent (FPIC) for indigenous and local communities, or to prevent forced or child labor. The policies are very minimal and fall well below providing protection. Regulators need to wake up and stop outsourcing the pace and scale of climate action to the financial institutions profiting from destruction.

The unsustainable development of the pulp and paper industry in Indonesia, is of great concern to Malaysia. For example, the expansion in the capacity of pulp and paper mills in Sumatra and Kalimantan, may entail the conversion of more peatland and forested areas, into pulp and paper monoculture plantations, in order to provide more raw materials to the mills. Consequently, the risk of transboundary haze incidents occurring in Southeast Asia in the near future may then continue. Compounding the matter, climate change may also increase the frequency and intensity of El Niño events, resulting in more severe droughts that can render the plantations and surrounding forests more vulnerable to larger fires that cannot be put out easily.

Therefore, members of the financial sector, including Malaysian banks, must play their role in ensuring that they do not finance companies that have been and may be involved in the conversion of forests and peatland into monoculture plantations. This can only be achieved if a financial institution has a coherent and effective ESG policy, which includes a robust No Deforestation, No Peat and No Exploitation policy (NDPE).

The report can be accessed here[3].

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1 https://forestsandfinance.org/
2 https://forestsandfinance.org/about-us/
3 https://consumer.org.my/financial-institutions-must-not-contribute-to-forest-and-peatland-destruction-and-transboundary-haze/#_ftnref3