

Nordic investments in banks financing Indonesian palm oil



Young Orangutans hugging in the Nyaru Menteng orangutan rescue/reintroduction centre near Palangka Raya, Central Kalimantan. © Markus Mauthe / Greenpeace. Date: April 2017

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Executive summary

Indonesian palm oil: a global issue

Oil palm plantation development in Indonesia comes with severe sustainability issues. The main sustainability issues are:

- Biodiversity loss – Critically endangered species such as orangutans, tigers and elephants losing their habitats;
- Climate change – Oil palm plantation expansion on peatlands and the accompanying fires contributing significantly to climate change;
- Land grabbing – Land rights still being poorly registered in Indonesia, with communities often losing land and livelihoods to large-scale plantations;
- Exploitation of labour – Deplorable working conditions on many oil palm plantations, with frequent instances of child labour and forced labour, and many workers getting no contracts for permanent employment despite being hired under temporary contracts for years; and
- Health threats – Air pollution from fires related to oil palm development causing respiratory illnesses and premature deaths.

Six main banks financing Indonesian palm oil development

Banks are vital to the rapidly expanding Indonesian palm oil sector. Most palm oil companies need to borrow money to establish oil palm estates. An investment of at least USD 50 million is needed to convert land/forest into a 10,000-hectare fruit-bearing oil palm estate. This report looks at six main banks financing oil palm expansion in Indonesia. Four of them are Indonesian, while two are from Singapore.

The four largest Indonesian banks are Bank Mandiri, Bank Rakyat Indonesia (BRI), Bank Negara Indonesia (BNI) and Bank Central Asia (BCA). Bank Mandiri, BNI and BRI are the three largest lenders to the Indonesian palm oil industry, and BCA is likely the fourth largest. Some facts:

- Palm oil is an important business for these banks, as the palm oil sector accounts for approximately 8% of their total lending.
- These four banks account for approximately half of all lending for Indonesian oil palm development.
- By the end of 2016 these four banks had outstanding loans to the Indonesian palm oil sector totalling an estimated USD 12.5 billion.
- Since the beginning of 2014, outstanding agriculture sector loans with these four banks have increased by 70%. BRI and BNI in particular have been expanding their palm oil portfolios rapidly.

The two Singaporean banks reviewed for this report are its two largest: Oversea-Chinese Banking Corporation Limited (OCBC) and DBS Bank. Neither OCBC nor DBS publish details of the amounts they loan to the Indonesian palm oil sector. However, several indicators – such as their lending to companies listed on the Indonesia Stock Exchange – point to the fact that these banks are among the largest lenders to the Indonesian palm oil sector.

Banks are not taking their sustainability role

Two recent developments have accelerated the process of transition towards sustainable practices for the Indonesian palm oil industry:

- Major players in the supply chain have signed No Deforestation, No Peat, No Exploitation (NDPE) policies. These NDPE policies include commitments to the concept of Free, Prior and Informed Consent (FPIC) for indigenous and other local communities, zero burning, preventing poor working

conditions, and preserving High Conservation Value (HCV) areas, High Carbon Stock (HCS) areas and peatlands.

- After Indonesia's haze disaster of late 2015, which resulted in enormous environmental and economic losses for the country, the Indonesian government signed a binding regulation on peatlands. Currently, developing oil palm on peatlands is forbidden.

Meanwhile, the banking sector has shown little progress on the sustainability front. The only achievement in this regard appears to be that more responsible banks are more inclined to do business with more responsible companies. The main banks supporting oil palm development are happy to finance any company's operations as long as the economics of their loans look good.

Unfortunately, many palm oil companies still continue to clear Indonesian rainforests. These companies are thereby gaining a competitive advantage over companies that have voluntarily committed to end deforestation. Weak regulations and easy access to bank loans are important reasons why rogue companies are able to undercut the sustainability efforts of more responsible ones.

Sustainability policies of the six Southeast Asian banks

Earlier, in 2015 and 2016, different NGOs conducted four assessments on responsible financing by banks. These assessments show international banks from the United States, Europe, Australia and Japan integrating sustainability concerns into their lending behaviour better than their counterparts from Indonesia and Singapore.

Recent reviews of the sustainability policies of six Southeast Asian banks conducted for this report confirm the findings of these earlier assessments. The six banks covered in this report appear to fall seriously short on applying sustainability criteria in approving loan requests from the palm oil sector. Furthermore, none of these banks have publicly disclosed any concrete sustainability requirements with regard to financing palm oil, or any sustainability engagement with clients. In general, their public disclosure at best merely pays lip service to sustainability.

Practices at odds with responsible financing

The Southeast Asian banks highlighted in this report offer minimal public transparency. However, the study did manage to identify significant clients these banks are financing. Loans from the six banks can be linked to nine large palm oil companies operating in Indonesia whose oil palm estate operations have caused deforestation, peatland destruction and/or violations of human rights. In some cases, activities by these palm oil companies appear to be in contravention with Indonesian policy, regulations and law. The banks should have identified these issues before agreeing to lend money, and clearly failed to carry out sustainability due diligence; a process for identifying, preventing, mitigating and accounting for actual or potential adverse impacts.

Nordic investors in the six Southeast Asian banks

Nordic asset managers have direct shareholdings worth more than USD 2 billion in the six main banks financing Indonesian oil palm operations (BRI, Bank Mandiri, BNI, BCA, OCBC and DBS). Most Nordic asset managers are also a client of the world's largest asset managers, such as Blackrock and Vanguard. These indirect shareholdings (also in the six banks) of the Nordic asset managers have not been assessed for this report.

The Nordic investors with the largest amounts of money invested in the six Southeast Asian banks are the Norwegian Government Pension Fund Global (GPF) with USD 1.3 billion, and Nordea with USD 0.3

billion. Remaining members of the top five are AP-fonderna with investments of USD 163 million, Swedbank with USD 140 million and Handelsbanken with USD 66 million.

Together these Nordic asset managers have leverage to enhance responsible lending policies and implementation by the six Southeast Asian banks. Some Nordic investors already have individual leverage on grounds of the size of their shareholdings in the Asian banks highlighted in this report. GPFG is among the ten largest shareholders of Bank Mandiri, DBS and OCBC, while Nordea is among the ten largest private shareholders of BRI and BNI.

In response to questions for this report, most Nordic investors confirmed they had yet to engage with any of the six banks on palm oil sustainability. On the positive side, most asset managers stated their potential interest in participating in a joint initiative to engage with the six banks.

Nordic financial institutions' policies are not fully aligned with the NDPE policies common in the oil palm market place, and increasingly common for all agricultural, including estate crop commodities. Conservation of High Carbon Stock forests and peatlands are often not included in their policies, and some Nordic asset managers have yet to show their full commitment to respecting the principle of Free, Prior and Informed Consent (FPIC) for indigenous and other local communities.

Methodology of the research

Annex 3 of the full report describes the research methodology for this report. The research mainly comprised screening and analysing all public information available. The 12 Nordic asset managers covered in this report all responded to a short questionnaire sent. Several NGOs and the Aidenvironment team contributed to this report through valuable comments on draft texts.

Photo. A group of children playing outdoors in thick haze. Oil palm operations were a main reason for Indonesia's 2015 haze crisis (Sei Ahass village, Kapuas district, Central Kalimantan).



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Table. Unsustainable practices financed by the six Southeast Asian banks

Palm oil company and its unsustainable practices	Banks financing the unsustainable practices	Nordic investors in the six banks (in order of amounts invested)
Ganda: <ul style="list-style-type: none"> - Deforestation of orangutan habitat - Drainage of peat > 3 metres in depth - Poor fire prevention/mitigation 	BNI	Nordea, GPFG, AP-fonderna, Storebrand, Swedbank, KLP
Tunas Baru Lampung: <ul style="list-style-type: none"> - Drainage of peat - Failure to comply with the terms of the forestland release permit - Land dispute with community 	OCBC, BRI, Bank Mandiri, BNI	GPFG, Nordea, AP-fonderna, Handelsbanken, Swedbank, Storebrand, KLP, Danske Bank, SEB, Länsförsäkringar, Skandia, DNB
BEST Group: <ul style="list-style-type: none"> - Drainage of peat - Poor fire prevention/mitigation - Violation of workers' rights 	BNI	Nordea, GPFG, AP-fonderna, Storebrand, Swedbank, KLP
HPI Agro: <ul style="list-style-type: none"> - Clearance of forests - Drainage of peat 	BCA	GPFG, AP-fonderna, Länsförsäkringar, Skandia, Storebrand, Swedbank, Handelsbanken
Korindo: <ul style="list-style-type: none"> - Clearance of forests - Poor fire prevention/mitigation - Land dispute with community - Suspected intentional burning 	BNI	Nordea, GPFG, AP-fonderna, Storebrand, Swedbank, KLP
Sampoerna Agro: <ul style="list-style-type: none"> - Drainage of peat - Poor fire prevention/mitigation - Land disputes with communities - Court case pending on fires in sago plantation 	OCBC, Bank Mandiri, BRI, BNI, DBS	GPFG, Nordea, AP-fonderna, Swedbank, Handelsbanken, KLP, Storebrand, Länsförsäkringar, Danske Bank, SEB, Skandia, DNB
IndoAgri/Salim: <ul style="list-style-type: none"> - Drainage of peat - Violation of workers' rights 	BCA, BNI, Bank Mandiri, DBS	GPFG, Nordea, Swedbank, AP-fonderna, Länsförsäkringar, Storebrand, KLP, Handelsbanken, Skandia, SEB, Danske Bank, DNB
Darmex Agro/Duta Palma: <ul style="list-style-type: none"> - Drainage of peat > 3 metres in depth - Clearance of forests - Poor fire prevention/mitigation - Suspected intentional burning 	Bank Mandiri	GPFG, AP-fonderna, Storebrand, Swedbank, KLP, Handelsbanken, Skandia, SEB
Sawit Sumbermas Sarana: <ul style="list-style-type: none"> - Clearance of forests - Occupying forestland without permit 	Bank Mandiri	GPFG, AP-fonderna, Storebrand, Swedbank, KLP, Handelsbanken, Skandia, SEB

Recommendations

Nordic asset managers

The 12 Nordic asset managers covered in this report are the Norwegian Government Pension Fund Global (GPF), Nordea, AP-fonderna, Swedbank, Handelsbanken, Storebrand, Länsförsäkringar, KLP, Skandia, SEB, DNB and Danske Bank.

Recommendations for these Nordic asset managers are as follows:

1. Require Southeast Asian banks to adopt and enforce No Deforestation, No Peat, No Exploitation (NDPE) financing policies as a prerequisite for continued investment by Nordic asset managers.
2. Create a partnership with other asset managers for engaging with the six Southeast Asian banks in order to increase leverage. Several Nordic asset managers have already shown interest in forming such a partnership. Invite other major asset managers such as Blackrock and Vanguard to join the partnership.
3. Calibrate your company's ethical financing policy to match mainstream NDPE policies. This new policy should then apply, with immediate effect, to all direct investments in companies whose operations impact upon tropical forests and peatlands. The principles of NDPE policies would serve as the basis for engagement with the Southeast Asian banks.

Southeast Asian banks

The six banks addressed in this report are four Indonesian banks: Bank Mandiri, Bank Rakyat Indonesia (BRI), Bank Negara Indonesia (BNI) and Bank Central Asia (BCA), and the two Singaporean banks: OCBC and DBS.

Recommendations for these Southeast Asian banks are as follows:

1. Adopt and enforce a No Deforestation, No Peat, No Exploitation (NDPE) financing policy. This policy should cover all lending and financing for agriculture commodities. The main elements of an NDPE policy are:
 - Ending all deforestation and protecting High Conservation Value (HCV) and High Carbon Stock (HCS) areas (using the High Carbon Stock (HCS) Approach);
 - Protecting all peatlands (regardless of depth);
 - Recognizing the right of local communities to give or withhold their Free, Prior and Informed Consent (FPIC) to any new developments;
 - Ensuring no violations of human rights occur, including labour rights and the rights of indigenous peoples and other local communities, in accordance with the UN Guiding Principles on Business and Human Rights.
2. Conduct robust due diligence on the sustainability risks of credit proposals from the agriculture commodities sector. Identify, prevent and mitigate potential and actual impacts. This applies to the legality of the proposed operations as well as their sustainability. Conducting due diligence also includes increased transparency to the public, as stipulated by internationally authoritative guidelines, such as the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises. Publish concrete sustainability requirements, results of sustainability engagement with clients, and lists of clients you lend money to for developing agriculture commodities.

Photo. Clearing by Ganda's subsidiary PT Agriprima Cipta Persada



© Ardiles Rante / Greenpeace. Date: March 2013. Coordinates: 7°26'6"S; 140°32'18"E

Photo. Clearing of peatland forest by HPI Agro's subsidiary PT Gemilang Sawit Kencana



© Aidenvironment (drone photo). Date: January 2016. Coordinates: 0°12'56.54"N; 109°42'11.91"E

Photo. Burnt trees at Salim's subsidiary PT Sawit Khatulistiwa Lestari



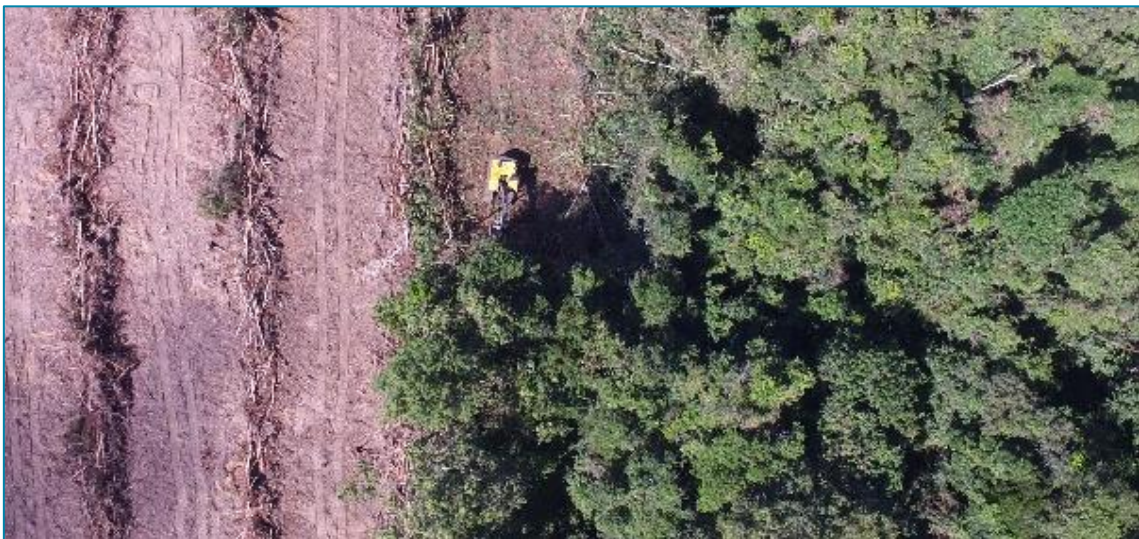
© Aidenvironment. Date: December 2015.

Photo. Smoke rising from a fire inside Duta Palma's peatland subsidiary PT Palma Satu (Riau, Sumatra)



© Ulet Ifansasti / Greenpeace. Date: September 2011. Coordinates: 0°32'23.94"S; 102°40'40.94"E

Photo. Recent deforestation by Sawit Sumbermas Sarana's subsidiary PT Mirza Pratama Putra



Date: May 2016. Coordinates: 1°58'35.40"S; 111°30'53.26"E.

Photo. Korindo (BNI financed) setting up a palm oil plantation on top of land it deforested in Papua



© Mighty Earth; 4 June 2016; Latitude 6°47'2.69"S, Longitude 140°45'48.58"E.

Photo. Burnt trees inside a concession of PT PP London Sumatra (IndoAgri) in East Kalimantan



© Aidenvironment. Date: 30 May 2015. Coordinates: 0°24'47.08"S; 116°3'11.21"E

Photo. Orangutans in North Sumatra



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