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## Nordic investments in banks financing Indonesian palm oil



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# Colophon

**Aidenvironment report:**

Nordic investments in banks financing Indonesian palm oil

**Commissioned by:**

Rainforest Foundation Norway

in collaboration with Fair Finance Guides Sweden and Norway

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**Cover photo:**

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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<b>Introduction</b>	<b>5</b>
<b>Executive summary</b>	<b>6</b>
<b>1. The six Southeast Asian banks and their palm oil loans</b>	<b>11</b>
1.1 Four Indonesian and two Singaporean banks	11
1.2 Bank Rakyat Indonesia (BRI)	12
1.3 Bank Mandiri	12
1.4 Bank Negara Indonesia (BNI)	13
1.5 Bank Central Asia (BCA)	14
1.6 OCBC	14
1.7 DBS	15
<b>2. Banks are not taking their sustainability role</b>	<b>16</b>
2.1 Traders/processors – NDPE policies	16
2.2 Indonesian government – peatland development is now illegal	17
2.3 The banking sector – no significant steps	19
<b>3. Practices at odds with responsible financing</b>	<b>20</b>
3.1 Case studies on nine palm oil companies	20
3.2 Ganda – financed by BNI	22
3.3 Tunas Baru Lampung – financed by OCBC, BRI, Bank Mandiri and BNI	24
3.4 The BEST Group – financed by BNI	26
3.5 HPI Agro – financed by BCA customers	28
3.6 Korindo – financed by BNI	30
3.7 Sampoerna Agro – financed by OCBC, Bank Mandiri, BRI, BNI and DBS	32
3.8 IndoAgri/Salim – financed by BCA, BNI, Bank Mandiri and DBS	34
3.9 Darmex Agro – financed by Bank Mandiri	36
3.10 Sawit Sumbermas Sarana – financed by Bank Mandiri	37
<b>4. The six Southeast Asian banks and their sustainability policies</b>	<b>38</b>
4.1 Earlier assessments	38
4.2 Positive moves?	40
4.3 Bank Rakyat Indonesia (BRI)	41
4.4 Bank Mandiri	41
4.5 Bank Negara Indonesia (BNI)	43
4.6 Bank Central Asia (BCA)	44
4.7 OCBC	45
4.8 DBS	46
<b>5. Nordic investors in the six Southeast Asian banks</b>	<b>47</b>
5.1 Two billion US dollars	47
5.2 The Norwegian Government Pension Fund Global (GPF)	49
5.3 Nordea	51
5.4 AP-fonderna	54
5.5 Swedbank	56
5.6 Handelsbanken	57
5.7 KLP	58
5.8 Storebrand	59

5.9	Länsförsäkringar	60
5.10	Skandia	62
5.11	Danske Bank	63
5.12	SEB	64
5.13	DNB	65
	<b>Conclusion and recommendations</b>	<b>67</b>
	<b>Annex 1: The main banks financing Indonesian oil palm development</b>	<b>69</b>
	<b>Annex 2: Questionnaire sent to Nordic investors</b>	<b>70</b>
	<b>Annex 3: Methodology of the research</b>	<b>71</b>
	<b>References</b>	<b>72</b>

**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).**



© Ardiles Rante / Greenpeace. Date: October 2015

# Introduction

## 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.

## Move to sustainability?

Since late 2013, the world's largest palm oil traders/processors have taken the private lead to embrace a transformation to sustainable practices. Their No Deforestation, No Peat, No Exploitation (NDPE) policies are currently considered the most ambitious in terms of sustainability. Together these traders/processors represent the bulk of the global palm oil trade. They have promised to clean up their supply chains, and have already prevented rainforest destruction to a significant degree.

Ever-rising global concerns over the sustainability impacts of palm oil industry expansion are also shared by Indonesia's government leaders. In December 2016, President Jokowi issued a temporarily ban on oil palm development on peatlands. As recently as February 2017, Indonesia's Minister of Finance explicitly highlighted how the palm oil industry brings huge profits for companies but comes at the expense of the commons.

So, how about the banking sector, the third main actor? Banks have an important role in tackling the sustainability issues of the palm oil sector, as palm oil companies need capital for the expensive investments involved in establishing oil palm plantations. But do banks take this important role? Have they also implemented NDPE policies? This report looks into the sustainability behaviour of the main banks involved in financing Indonesian oil palm development.

This report also looks into Nordic financial institutions, known to be committed to upholding ethical financing practices. One such practice, implemented by GPF, the world's largest sovereign wealth fund, was to divest from more than 30 companies involved in palm oil in Indonesia. In general, Nordic financial institutions provide relatively little direct support to the palm oil industry.

However, the Nordic investors do still invest heavily in the palm oil industry. They have shareholdings worth more than USD 2 billion in the main Southeast Asian banks financing Indonesian palm oil. Have these banks been on their sustainability radar, or will they be soon?

# Executive summary

## 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. GPF 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 this 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.

**Table 1. 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: - 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: - 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: - Drainage of peat - Poor fire prevention/mitigation - Violation of workers' rights	BNI	Nordea, GPFG, AP-fonderna, Storebrand, Swedbank, KLP
HPI Agro: - Clearance of forests - Drainage of peat	BCA	GPFG, AP-fonderna, Länsförsäkringar, Skandia, Storebrand, Swedbank, Handelsbanken
Korindo: - Clearance of forests - Poor fire prevention/mitigation - Land dispute with community - Suspected intentional burning	BNI	Nordea, GPFG, AP-fonderna, Storebrand, Swedbank, KLP
Sampoerna Agro: - 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: - 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: - 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: - 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. Orangutans in North Sumatra



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# 1. The six Southeast Asian banks and their palm oil loans

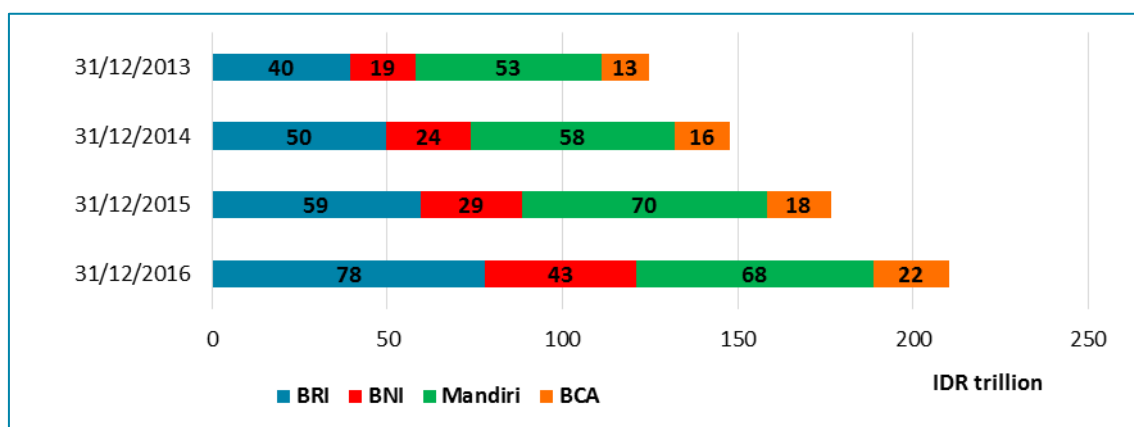
## 1.1 Four Indonesian and two Singaporean banks

### The four Indonesian banks

Bank Mandiri, BRI, BNI and BCA are the four largest Indonesian banks, and very likely the four largest lenders to the Indonesian palm oil industry. On 31 December 2016, outstanding loans from these banks to the agriculture sector totalled IDR 210 trillion, or 10% of their total outstanding loans. The palm oil sector accounted for an estimated 80% of these loans, or around IDR 168 trillion (equivalent to USD 12.5 billion).<sup>1</sup>

Outstanding loans from the four banks to the agriculture sector increased by 69% over three years to December 2016. BRI and BNI in particular have been rapidly expanding their palm oil portfolios. Bank Mandiri had long been the leading lender to the agriculture sector, but by the end of 2016 its position had been taken over by BRI.

Figure 1. The largest Indonesian banks' outstanding agriculture sector loans



### The two Singaporean banks

The two Singaporean banks reviewed for this report, OCBC and DBS, do not publish details of their loans to the Indonesian palm oil sector. However, several indicators make it clear these banks are among the largest lenders behind the four Indonesian banks:

- By the end of 2016, OCBC's Indonesian subsidiary, PT Bank OCBC NISP, had outstanding loans of IDR 12 trillion to the 'agriculture and mining' sector. Other subsidiaries of OCBC also disburse loans to the Indonesian palm oil sector.
- On 31 December 2016, DBS's Indonesian subsidiary, PT Bank DBS Indonesia, had outstanding loans of IDR 8 trillion to the 'agriculture and fisheries' sector. Other subsidiaries of DBS also disburse loans to the Indonesian palm oil sector.
- Aidenvironment looked at the banks behind outstanding loans of the 16 palm oil companies listed on the Indonesia Stock Exchange. Outstanding loans with OCBC and DBS were the 6<sup>th</sup> and 8<sup>th</sup> largest respectively. Along with the four Indonesian banks, Credit Suisse and China Development Bank made up the top eight. However, their loans were to only one of the 16 palm oil companies, while loans from DBS and OCBC were to 4 and 5 companies respectively. This suggests OCBC and DBS are disbursing loans to listed and unlisted Indonesian palm oil companies more widely, and is the reason they were chosen for review in this report.

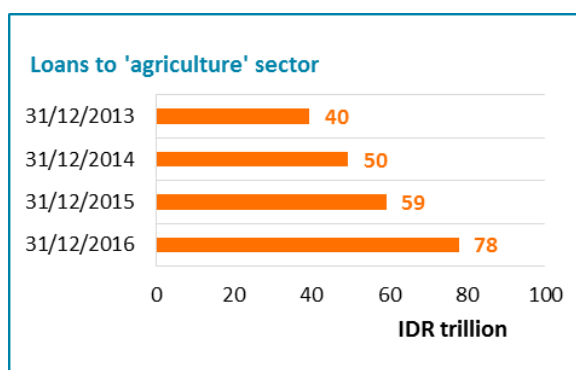
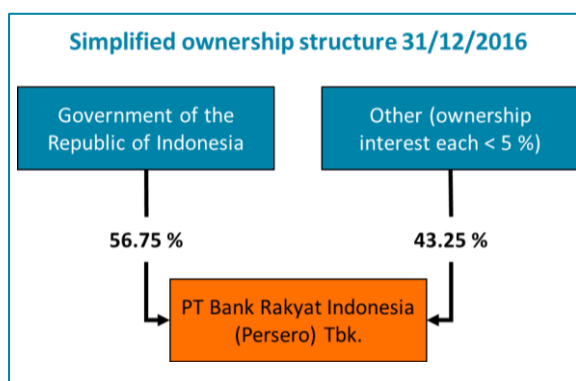
## 1.2 Bank Rakyat Indonesia (BRI)

Bank Rakyat Indonesia (BRI) is Indonesia's second largest bank by total assets.<sup>2</sup> The bank is listed on the Indonesia Stock Exchange (ticker: BBRI).

At the end of 2016, the 'agriculture' sector accounted for 12.1% of all loans provided by BRI. Outstanding loans to this sector increased by an impressive 31% in 2016.<sup>3</sup> Its lending had also risen in 2014 and 2015. BRI disbursed agribusiness loans of IDR 27 trillion in 2015, up 17% from IDR 23 trillion the previous year. This explains the increases in outstanding loans at the end of successive years.<sup>4</sup>

The bank's preferred commodities include palm oil, rubber, and their derivative products. Its preferred livestock commodities are poultry, dairy cows, beef cattle and shrimp farming. Its industry and trade sector commodities include pesticides, oleochemicals, coconut processing, sugar, rice and others. BRI also disburses loans to 'plasma' farmers involved in smallholder and nucleus estate oil palm schemes.<sup>5</sup>

BRI finances numerous palm oil companies with large operations in Indonesia, including Tunas Baru Lampung, Sampoerna Agro, Gozco Plantations, Provident Agro, Perkebunan Nusantara and Salim Ivomas Pratama,<sup>6</sup> and likely has many more clients.

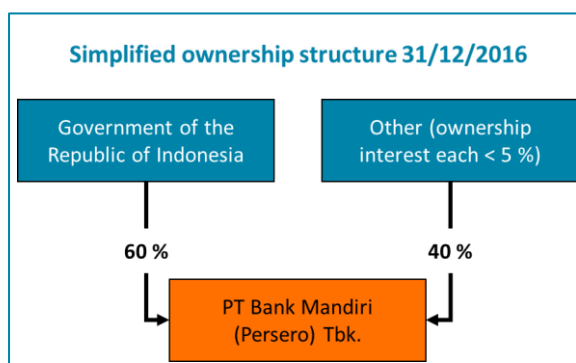


## 1.3 Bank Mandiri

Bank Mandiri is Indonesia's largest bank by total assets.<sup>7</sup> The bank is listed on the Indonesia Stock Exchange (ticker: BMRI).

Until recently Bank Mandiri was also the largest lender for palm oil development. However, Bank Rakyat Indonesia now has larger outstanding agriculture sector loans.

At the end of 2016, the agriculture sector accounted for 10.4 % of all loans provided by Bank Mandiri.<sup>8</sup> An estimated 80% of these were to the palm oil sector.<sup>9</sup> The palm oil loans comprise 'on farm' plantation development and 'off farm' sectors including downstream industries such as refineries and oleochemicals.<sup>10</sup>



The President Director of Bank Mandiri, Mr. Kartika Wirjoatmodjo, stated in January 2017 that the bank would increase its infrastructure and palm oil sector lending in 2017.<sup>11</sup>

According to Bank Mandiri annual reports for 2013 and 2014, its palm oil sector financing portfolio covered a plantation area of 930,000 hectares (ha), or 10% of Indonesia's total oil palm planted area.<sup>12</sup>



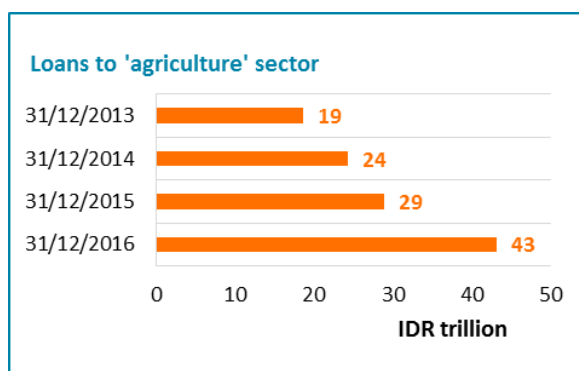
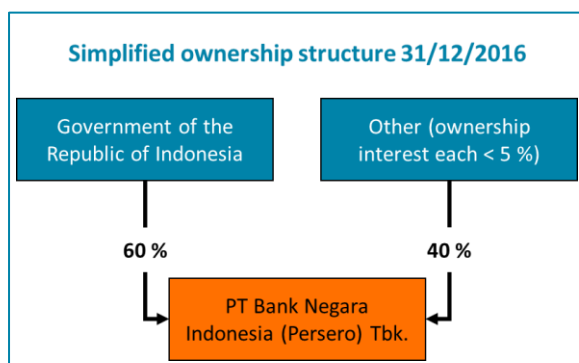
Bank Mandiri finances numerous palm oil companies with large operations in Indonesia, including Tunas Baru Lampung, Sampoerna Agro, Bakrie Sumatera Plantations, Jaya Agra Wattie, Darmex Agro/Duta Palma, Salim Ivomas Pratama, Perkebunan Nusantara and Provident Agro,<sup>13</sup> and likely has many more clients.

### 1.4 Bank Negara Indonesia (BNI)

Bank Negara Indonesia (BNI) is Indonesia's fourth largest bank by total assets.<sup>14</sup> The bank is listed on the Indonesia Stock Exchange (ticker: BBNI).

At the end of 2016, the agriculture sector accounted for 11.0% of all loans provided by BNI.<sup>15</sup> Similar to BRI, BNI's outstanding loans to the agriculture sector increased enormously in 2016. In a January 2017 presentation, BNI listed its 10 largest agriculture sector debtors.<sup>16</sup> These companies, whose main activity by far is oil palm cultivation, accounted for 65% of BNI's lending to the agriculture sector.

On 13 January 2017, BNI announced it had provided a loan of IDR 6 trillion (equivalent to USD 450 million) to the palm oil company Sawit Sumbermas Sarana.<sup>17</sup> This new loan is not included in the table below.



**Table 2. Palm oil companies with the largest outstanding loans from BNI**

Palm oil company	Outstanding loans (IDR trillion)
Perkebunan Nusantara	6.3
BEST Group	3.3
Eagle High Plantations	3.1
Teladan Prima Group	2.9
Ganda Group	2.7

Korindo	2.7
Salim Group	2.2
Sawit Sumbermas Sarana	1.9
Gozco Plantations	1.6
Barito Pacific	1.2
<b>Total</b>	<b>27.9</b>

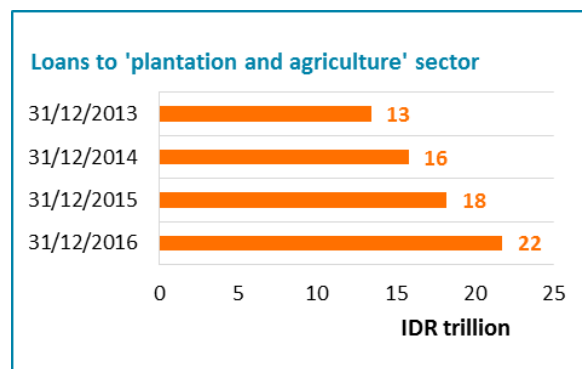
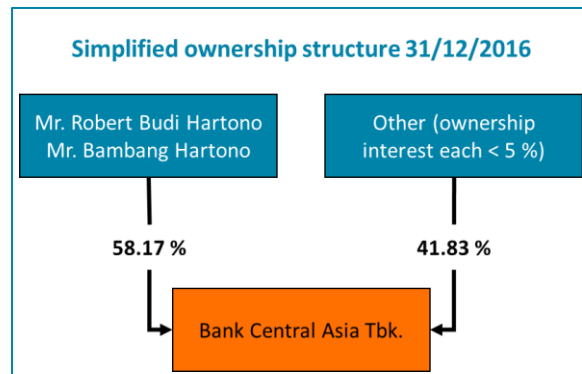
## 1.5 Bank Central Asia (BCA)

Bank Central Asia (BCA) is majority-owned by Mr. Robert Budi Hartono and Mr. Michael Bambang Hartono, who, according to the American magazine Forbes are Indonesia's richest people with assets worth USD 7.5 billion.<sup>18</sup> Co-owners of the *kretek* cigarette company Djarum, they also have a range of businesses in other sectors, including palm oil.

Bank Central Asia is listed on the Indonesia Stock Exchange (ticker: BBCA), and is Indonesia's third largest bank by total assets.<sup>19</sup>

According to BCA's annual report for 2016, the 'plantation and agriculture' sector accounts for 11.0% of its corporate loan portfolio. However, this sector accounted for only 5.4% of the bank's outstanding loans at the end of 2016.<sup>20</sup>

Bank Central Asia finances many oil palm companies with large operations in Indonesia. Its largest clients are likely Dharma Satya Nusantara Group and Salim Ivomas Pratama, with outstanding loans with BCA of IDR 4.9 trillion and IDR 4.7 billion respectively as of 30 September 2016. Other clients include HPI Agro, Sinar Mas Agro Resources and Technology and Astra Agro Lestari.<sup>21</sup>

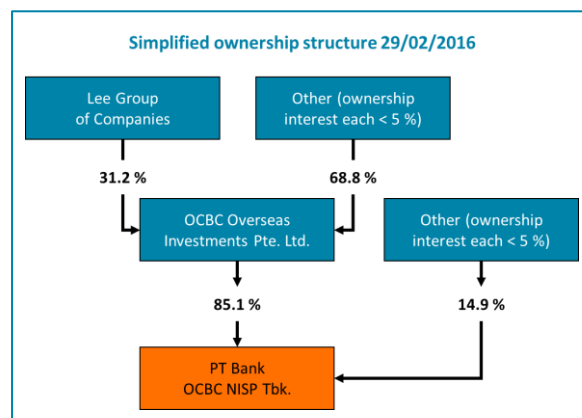


## 1.6 OCBC

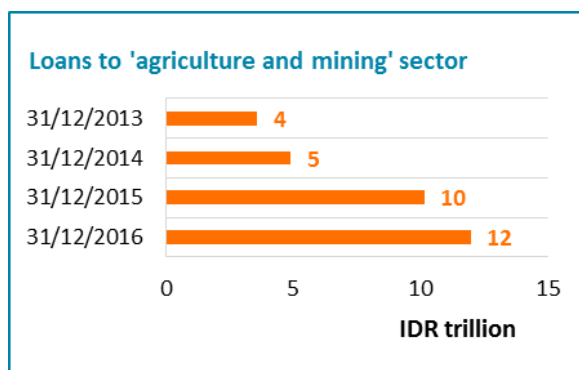
The Singaporean private company Oversea-Chinese Banking Corporation Limited (OCBC) is listed on the Singapore Stock Exchange (ticker: O39). OCBC assets amounted to SGD 410 billion (equivalent to USD 283 billion) on 31 December 2016.<sup>22</sup> OCBC is Singapore's second largest bank.

### OCBC NISP

PT Bank OCBC NISP is the Indonesian subsidiary of OCBC, and is listed on the Indonesia Stock



Exchange (ticker: NISP). Its assets amounted to IDR 138 trillion (equivalent to USD 10 billion) at the end of 2016.<sup>23</sup> Over the years, PT Bank OCBC NISP has increased its lending to the 'agriculture and mining' sector, which by the end of 2016, accounted for 13% of all its loans.<sup>24</sup>

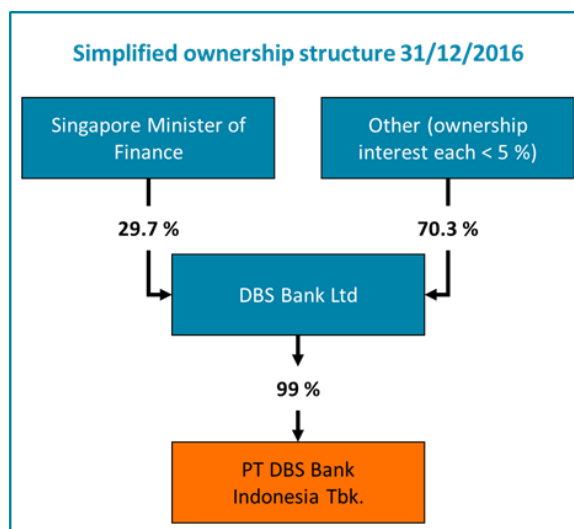


In May 2015, OCBC NISP loans to the oil palm sector amounted to IDR 6 trillion, with the bank aiming to reach IDR 7-7.5 trillion by the end of that year. The palm oil sector accounted for some 10% of all outstanding loans from OCBC NISP. The bank has also stated it has encountered no non-performing loans (NPL) in the palm oil sector.<sup>25</sup>

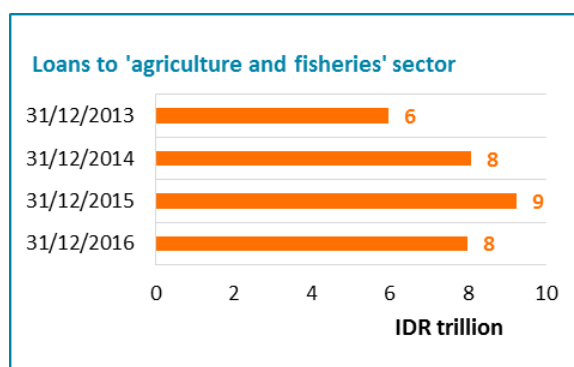
PT Bank OCBC NISP is not the only OCBC bank financing oil palm development in Indonesia as other OCBC subsidiaries also disburse loans to the Indonesian palm oil sector. OCBC has not disclosed the total value of these loans. OCBC finances many oil palm companies with large operations in Indonesia such as Tunas Baru Lampung, Austindo Nusantara Jaya, Genting, Sampoerna Agro, Bumitama, Astra Agro Lestari and Triputra Agro Persada.<sup>26</sup>

## 1.7 DBS

DBS stands for Development Bank of Singapore. The DBS Group is listed on the Singapore Stock Exchange. Its assets amounted to SGD 482 billion (equivalent to USD 333 billion) on 31 December 2016.<sup>27</sup> DBS is Singapore's largest bank. In addition to operating in Singapore and Indonesia, it is also active in Hong Kong, China and Taiwan.



PT Bank DBS Indonesia is part of the DBS Group. It is not listed on the Indonesia Stock Exchange. Its assets amounted to IDR 66 trillion (equivalent to USD 4.9 billion) on 31 December 2016.<sup>28</sup> By the end of years 2013, 2014, 2015 and 2016, its lending to the 'agriculture and fisheries' sector amounted to IDR 6.0 trillion, 8.1 trillion, 9.3 trillion and 7.8 trillion respectively. By the end of 2016, the sector accounted for 19% of all loans provided by DBS Bank Indonesia.<sup>29</sup>



PT Bank DBS Indonesia is not the only DBS bank financing oil palm development in Indonesia as other DBS subsidiaries also disburse loans to the Indonesian palm oil sector. DBS has not disclosed the total value of these loans. DBS finances many oil palm companies, such as Eagle High Plantations, Provident Agro, Sampoerna Agro, Salim Ivomas Pratama, Bumitama and Triputra Agro Persada with large operations in Indonesia.<sup>30</sup>

## 2. Banks are not taking their sustainability role

### 2.1 Traders/processors – NDPE policies

#### No Deforestation, No Peat, No Exploitation policies

Since late 2013, the largest palm oil traders/processors in Southeast Asia have taken the private lead to embrace a transformation to sustainable practices. Jointly, they represent the bulk of the global palm oil trade. Their No Deforestation, No Peat, No Exploitation (NDPE) policies are currently considered the most ambitious in terms of sustainability, with US-based NGO Rainforest Action Network recently stating, “NDPE policies have become the benchmark for forest-risk commodity production.”<sup>31</sup> Key substantive elements of NDPE policies are as follows:

- Ending all deforestation by protecting High Conservation Value (HCV) areas and not converting High Carbon Stock (HCS) areas (using the High Carbon Stock (HCS) Approach)<sup>32</sup>;
- 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;
- Complying with the fundamental conventions of the International Labour Organisation (ILO)<sup>33</sup> and upholding the wider United Nations Guiding Principles on Business and Human Rights.<sup>34</sup>

#### Scope and procedural aspects of NDPE policies

Equally important are the scope and procedural aspects of NDPE policies:

- They apply to a signatory’s own plantation operations as well as all the plantations operated by their third-party suppliers. Preferably they also apply to other commodities and forestry, and the other businesses of company directors.
- Proper NDPE policies come with grievance mechanisms (following the UN Guiding Principles).
- Transparency: six major palm oil traders/processors: ADM, Apical/Asian Agri, Golden Agri-Resources (GAR), IOI, Musim Mas and Wilmar International have made information on which mills they source their palm oil from publicly available.<sup>35</sup>
- Supplier engagement: the pace set to ensure suppliers’ compliance is the critical factor in whether NDPE policies adopted by traders/processors have a significant impact on the ground.
- Sanctions: When a supplier is found to be non-compliant, the trader’s procurement and sustainability teams typically engage with the supplier to explain the purpose and impact of its NDPE policy. If a supplier is found to be developing land in a forest, peatland or disputed area, it is usually asked to issue a “stop-work order” until relevant (HCV and HCS) assessments have been completed and/or land conflicts resolved. Suppliers failing to enforce such “stop-work orders” run the risk of being excluded from NDPE policy signatories’ value chains.

#### Outcomes

The transformation drive set by palm oil traders/processors has already prevented ongoing and planned deforestation and peatland clearance in a significant number of cases. A study published in February 2017 by the Chain Reaction Research consortium (Aidenvironment, Profundo and Climate Advisers) suggests that of the 21 million ha of land leased out for oil palm expansion in Indonesia, 6 million ha is still intact forest and/or peatland. For the large part, NDPE policies have caused such areas of land to become stranded assets, as they are no longer available for commercial development as they were under the terms that used to apply (when deforestation and peat development was still ‘normal’).<sup>36</sup>

Four of the ten largest palm oil growers listed on the Indonesia Stock Exchange (IDX) have strengthened their sustainability policies and practices since June 2015. Many palm oil growers have also ceased their



operations in Papua and Sulawesi.<sup>37</sup> Now, new frontiers, such as Africa and Papua New Guinea are often subject to the scrutiny of NDPE policies.

There have been drawbacks, however, such as when Amnesty International published a report on poor labour practices in the palm oil industry in November 2016.<sup>38</sup> The 'No Exploitation' part of NDPE policies requires extra attention. Another drawback is there will always be laggards. Some traders/ processors and growers will just ignore sustainability matters altogether. The banks currently financing such companies provide little stimulus for them to upgrade their sustainability performance.

A study by Forest Trends published in March 2017 found that commitments on palm, timber and pulp continue to lead the way, thanks in large part to their better-established certification programs and the scrutiny surrounding palm oil-driven deforestation. Commitment rates remain considerably lower for soy and cattle, which is troubling given their outsized contribution to tropical forest loss.<sup>39</sup>

## 2.2 Indonesian government – peatland development is now illegal

### Peat: climate change and fires

An estimated 16 million ha of land in Kalimantan, Sumatra and Papua comprises peatlands with massive amounts of stored carbon. The draining of peatlands by oil palm and pulpwood companies contributes significantly to Indonesia's greenhouse gas emissions. When peatlands are drained, the stored carbon reacts with oxygen in the air to release carbon dioxide into the atmosphere. After oxidation, the largest source of greenhouse gas emissions in peat swamp areas is the burning of biomass for land clearing and the burning of drained peat. The process of establishing oil palm estates on peatland is often accompanied by fire. Disturbed peatlands are fire prone because of the build up of dry, flammable fuels (through drainage) and the lower humidity resulting from a reduced tree canopy. Fire ignitions may be accidental or intentional.<sup>40</sup>

### The 2015 haze crisis

Throughout late 2015, much of Southeast Asia suffered from record levels of haze from fires in Indonesia. The clearing of peatlands for oil palm and pulpwood plantations was one of the main reasons for the forest and land fires, which burned an area of 1.7 million ha. The haze crisis caused almost 100,000 premature deaths and millions of people to suffer respiratory illnesses. The World Bank estimated that Indonesia suffered economic losses totalling USD 16 billion. The 2015 fires in Indonesia contributed more to climate change than the annual fossil fuel emissions of Japan and Germany combined. On many days during the haze crisis, Indonesia's carbon emissions even surpassed those of the entire US economy.<sup>41</sup> Indonesia's Finance Minister, Sri Mulyani Indrawati stated in February 2017 that the enormous losses from the 2015 forest fires and haze called the economic benefits of palm oil into question.<sup>42</sup>

### Government response

The cultivation of oil palm on peatland with a peat depth of 3 metres or more was already in violation with Indonesian law.<sup>43</sup> In early November 2015, Indonesia's Minister of Environment and Forestry issued an instruction to palm oil companies to, among other things, stop clearing peatlands and stop planting on burnt peatlands regardless of peat depth or whether the company already had a concession permit.<sup>44</sup> This instruction was not legally binding.

The Government has established a Peatland Restoration Agency with a mandate to plan and implement peat restoration on a total area of two million ha by 2020.<sup>45</sup>

On 2 December 2016, President Joko Widodo signed a new (binding) government regulation on the protection and management of peatland ecosystems.<sup>46</sup> The regulation sets the framework for protecting and restoring peat domes, peatland hydrological governance, and also contains a moratorium on new peat development. It stipulates that any person is prohibited from:

- a. opening (clearing) new land pending the establishment of protection/cultivation zones;
- b. making drainage channels, resulting in peat becoming dry;
- c. intentionally burning peatlands and/or being negligent in extinguishing unintentional fires;
- d. performing other activities that result in damage exceeding standards stipulated under the law.

In March 2017, Indonesia's Minister of Environment and Forestry reiterated the government's no-compromise stance with regard to peat violations. A logging company, PT MPK, had been constructing new canals in a peatland concession that also constitutes Bornean orangutan habitat. The Minister responded saying, "The construction of new canals, or any new peat development, including in the PT MPK concession, for any reason whatsoever is strictly prohibited. This is indisputable."<sup>47</sup>

The ban will remain in effect until Indonesia finishes mapping its peatlands and zoning them for conservation or cultivation. The NGOs Greenpeace and Wetlands International have criticized the upcoming zoning of peatlands, as the regulation's goal of protecting at least 30% of all peat domes means the remaining 70% will be left open to drainage. Wetlands International stated this is "like allowing smoking on the left side of a plane and forbidding it on the right side."<sup>48</sup>

**Photo. Burnt remains of forested orangutan habitat on deep peatland (Ketapang district, West Kalimantan)**



© Greenpeace (drone photo). Date: September 2015, Coordinates: 1°52'48.443"S; 110°8'10.515"E

## 2.3 The banking sector – no significant steps

### Important responsibilities yet to be taken

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.<sup>49</sup> Easy access to credit from banks is an important reason why rogue companies are able to undercut the sustainability efforts of more responsible ones. As things stand, banks are providing a competitive advantage to companies without sustainability policies.

Banks could occupy an important role as an extra filter in tackling sustainability issues surrounding the palm oil sector. However, despite major traders/processors with their NDPE policies and the Indonesian government taking serious steps in recent years, the banking sector is unable to present any results in regard to sustainability as any unsustainable activities can slip through its net.

The most dynamic occurrence in the banking sector is probably the recent policy update by UK-based bank HSBC, which has a large base in Asia. HSBC took an important step in February 2017 after being targeted by Greenpeace over its loans to several oil palm projects linked to serious deforestation. Firstly, it made its policy consistent with No Deforestation, No Peat, and No Exploitation (NDPE) policies; secondly, it extended its policy to include refiners and traders; and thirdly, it would start being transparent about the identities of its oil palm clients. New customers will be required to sign agreements enabling HSBC to disclose their relationship with the bank.<sup>50</sup> HSBC's promise to be transparent about its clients is significant because the banking sector is so opaque. Most banks do not disclose which agriculture companies account for their outstanding loans, meaning stakeholders cannot assess whether banks are implementing their sustainability policies properly. Hopefully other banks will follow HSBC's lead as there can be no sustainability without transparency.

Many assessments have shown international banks originating from Australia, Europe, Japan and the United States integrating sustainability concerns into their lending behaviour better than their counterparts from Indonesia and Singapore. In February 2017, the Chain Reaction Research consortium found companies without improved sustainability performance increasingly relying on loans from banks with weak environmental, social and governance (ESG) policies.<sup>51</sup> Perhaps there have been some developments on responsible lending in the banking sector, though for the six Southeast Asian banks assessed for this report no such developments were evident.

### Sustainability due diligence

The OECD Guidelines for Multinational Enterprises and UN Guiding Principles on Business and Human Rights stipulate that companies should carry out due diligence. This also applies to banks and institutional investors. The OECD has in fact made a report directed specifically at institutional investors under the OECD Guidelines.

Sustainability due diligence is a process for identifying, preventing, mitigating and accounting for actual or potential adverse impacts on matters such as those covered by the OECD Guidelines (human rights, labour, environment, bribery and other integrity impacts). Due diligence under the OECD Guidelines should be continuous and ongoing, and aimed at avoiding and responding to risks relating to issues covered in the OECD Guidelines. This means companies need to be transparent on how they address these issues. The UN Guiding Principles on Business and Human Rights have a similar definition of due diligence, but only deal with human rights.<sup>52</sup>

### 3. Practices at odds with responsible financing

#### 3.1 Case studies on nine palm oil companies

##### Unsustainable practices

This chapter contains case studies of unsustainable practices by nine palm oil companies. These companies' practices are connected to loans disbursed by one or more of the six Southeast Asian banks.

The term “unsustainable” in this report refers to practices not aligned with No Deforestation, No Peat, No Exploitation (NDPE) policies. In some cases the practices were also in violation of Indonesian law.

Figure 2. Overview of case study locations



Table 3. The case studies linked to the six Southeast Asian banks and the Nordic investors

Palm oil company and its unsustainable practices	Banks financing the unsustainable practices	Nordic investors in the six banks (in order of amounts invested)
Ganda: - Deforestation of orangutan habitat - Drainage of peat > 3 metres in depth - Poor fire prevention/mitigation	BNI	Nordea, GPF, AP-fonderna, Storebrand, Swedbank, KLP
Tunas Baru Lampung: - Drainage of peat - Failure to comply with the terms of the forestland release permit - Land dispute with community	OCBC, BRI, Bank Mandiri, BNI	GPF, Nordea, AP-fonderna, Handelsbanken, Swedbank, Storebrand, KLP, Danske Bank, SEB, Länsförsäkringar, Skandia, DNB
BEST Group: - Drainage of peat - Poor fire prevention/mitigation - Violation of workers' rights	BNI	Nordea, GPF, AP-fonderna, Storebrand, Swedbank, KLP
HPI Agro: - Clearance of forests - Drainage of peat	BCA	GPF, AP-fonderna, Länsförsäkringar, Skandia, Storebrand, Swedbank, Handelsbanken

Korindo: - Clearance of forests - Poor fire prevention/mitigation - Land dispute with community - Suspected intentional burning	BNI	Nordea, GPFG, AP-fonderna, Storebrand, Swedbank, KLP
Sampoerna Agro: - 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: - 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: - 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: - Clearance of forests - Occupying forestland without permit	Bank Mandiri	GPFG, AP-fonderna, Storebrand, Swedbank, KLP, Handelsbanken, Skandia, SEB

### Linking banks to agriculture companies

The banking sector is opaque, and most banks disclose no information on which agriculture companies account for their outstanding loans. This makes it difficult to connect unsustainable practices by these companies to loans disbursed by banks. Consequently, a bank's implementation of its sustainability policy, if indeed it has one, cannot be assessed in full.

However, for this report some bank loans could be linked to specific agriculture companies:

- Indonesia's Ministry of Finance requires that companies listed on the Indonesia Stock Exchange (IDX) specify loans disbursed by banks in their quarterly and annual reports. The 16 IDX-listed companies account for 20 to 25% of Indonesian oil palm production (see Annex 1). This means 20 to 25% of total lending for Indonesian oil palm development can be linked to an IDX-listed agriculture company.
- One of the six Southeast Asian banks reviewed for this report, Bank Negara Indonesia (BNI), has revealed which agriculture companies it lends money to. In January 2017, BNI disclosed the names of agriculture companies with the largest outstanding loans from the bank. Due to its commendable disclosure, BNI is overrepresented in the agriculture company practices highlighted in this chapter.
- In some cases a link between a palm oil company and a bank could be established through the use of search engines. Meanwhile, some relationships could be found in Thompson and Bloomberg financial databases.

### 3.2 Ganda – financed by BNI

#### The Ganda Group

The Ganda Group is a business conglomerate owned by Chinese Indonesian businessman Mr. Ganda Sitorus and his relatives. Mr. Ganda is a former employee of Wilmar International, the world’s largest palm oil trader/processor. He is the brother of Mr. Martua Sitorus, one of the co-founders of Wilmar. The Ganda Group’s portfolio includes coal mining, property, automotive and agriculture/forestry (palm oil, rubber, biomass and timber) businesses.

According to the group, its Indonesian land bank amounts to a total of 360,000 ha in Sumatra, Kalimantan, Sulawesi and Papua.<sup>53</sup> Its oil palm estates are held through a complex list of subsidiaries, among which are the parent companies PT Ganda Sawit Utama, PT Agro Mandiri Semesta and PT Asiatic Persada. Ganda has no NDPE policy, and is not a member of the Roundtable on Sustainable Palm Oil (RSPO). In a January 2017 presentation, BNI reported that Ganda had IDR 2.7 trillion (equivalent to USD 200 million) of outstanding agriculture loans with the bank.<sup>54</sup>

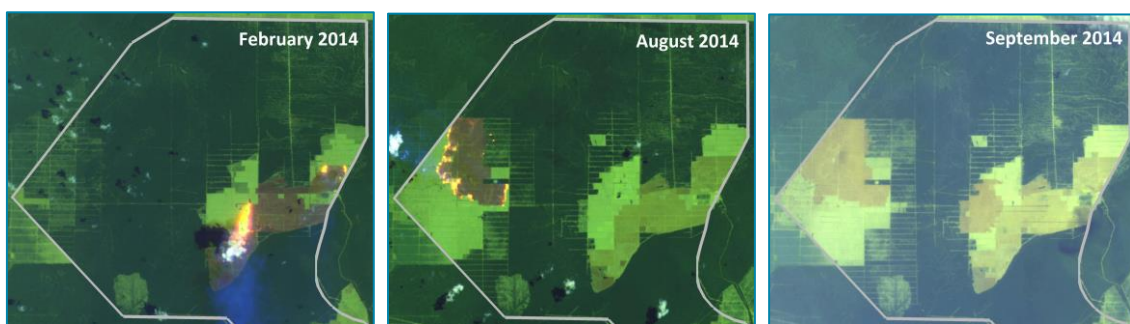
#### PT Graha Agro Nusantara

Ganda’s plantation company PT Graha Agro Nusantara (PT GAN) has a plantation business permit (IUP) for 15,800 ha. The Indonesian Ministry of Forestry’s forest cover map for 2011 shows PT GAN’s concession having 5,400 ha of primary swamp forest and 8,800 ha of secondary swamp forest. PT GAN has converted around 7,000 ha of peat swamp forest since 2014.

In 2014, fires raged inside the concession during two periods linked to Ganda’s forest clearing. The September 2014 image below shows burnt areas (brownish colour) totalling at least 1,900 ha.



Figure 3. Fires raging inside PT GAN’s concession in 2014



The figure to the right shows the PT GAN concession in February 2017, overlaid by an area (marked in brown) of peat with depths of 4 to 8 metres.<sup>55</sup> Oil palm cultivation on deep peatland has been in contravention with Indonesian regulations for years.<sup>56</sup>

PT GAN’s concession overlaps with orangutan habitat. In early September 2015, a baby orangutan later was found without its mother in a newly cleared area of the PT GAN concession.<sup>57</sup>



## Ganda in Papua

The Ganda Group has two oil palm concessions in Papua: the PT Agriprima Cipta Persada (PT ACP) concession covering 26,000 ha and the PT Agrinusa Mulia Persada (PT AMP) concession on 19,500 ha. According to the Ministry of Forestry land cover map for 2011, before Ganda started developing, most of the concessions (79% or 36,000 ha) constituted primary and secondary forest, while the remainder was made up of transmigration sites. PT ACP started clearing forest in 2013 and PT AMP in 2015. Between September 2015 and August 2016 another 3,700 ha of forest was cleared in the two concessions, as is shown by the satellite imagery below.

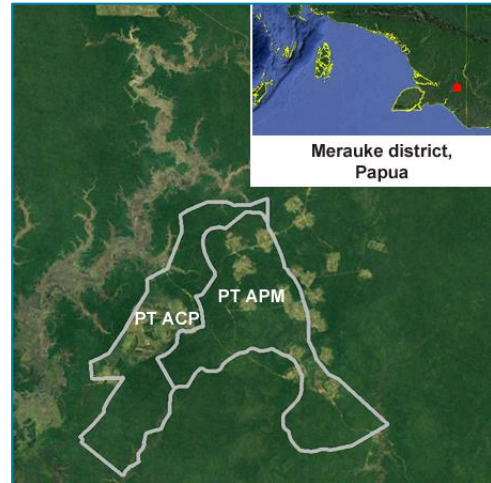


Figure 4. Recent forest clearing by PT ACP and PT AMP

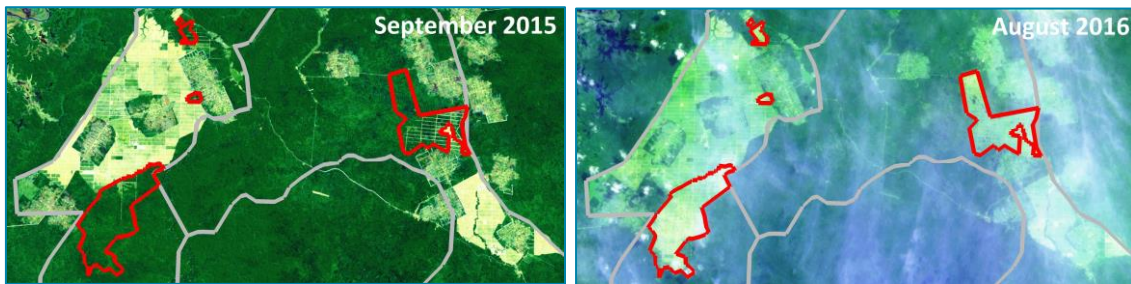
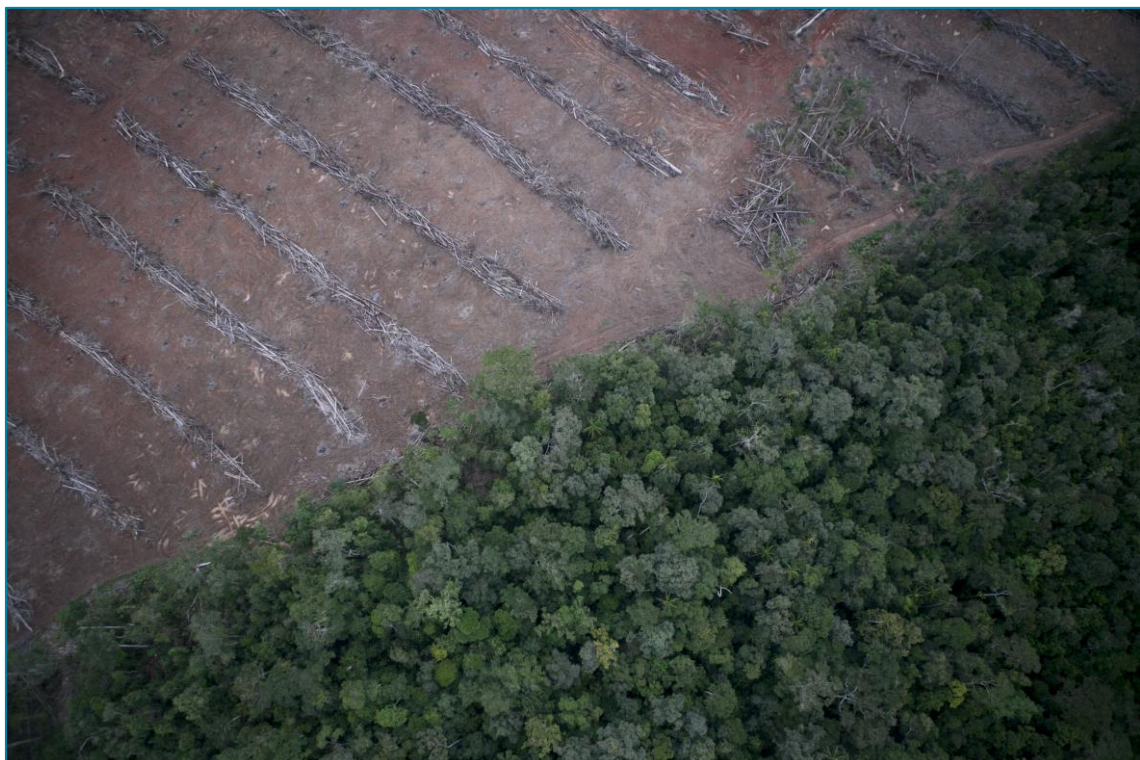


Photo. Clearing by Ganda's subsidiary PT Agriprima Cipta Persada



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

### 3.3 Tunas Baru Lampung – financed by OCBC, BRI, Bank Mandiri and BNI

#### Sungai Budi Group

The palm oil company PT Tunas Baru Lampung Tbk. (TBLA) is part of the Indonesian Sungai Budi Group. By June 2016, TBLA had planted 53,000 ha in Sumatra and West Kalimantan with oil palm.<sup>58</sup> TBLA is listed on the Indonesia Stock Exchange, but has no NDPE policy. The company is a member of the RSPO, but has not been particularly active in certifying its supply bases and palm oil mills.

On 30 September 2016, TBLA had outstanding oil palm related loans totalling IDR 3.3 trillion.<sup>59</sup> Its main lenders were OCBC (IDR 1.0 trillion), BRI (IDR 0.6 trillion) and Bank Mandiri (IDR 0.5 trillion). Some of these loans were for company working capital, allowing for general business development.

#### Peatland clearance

Most of TBLA's planted area of 6,000 ha in West Kalimantan is situated on peatland. Development of the main plantation, owned by TBLA subsidiary PT Bumi Perkasa Gemilang (PT BPG), was supported by Bank Negara Indonesia (BNI) with loans disbursed in 2014. Outstanding BNI loans for this subsidiary amounted to IDR 0.3 trillion on 30 September 2016.

Between April 2016 and April 2017, TBLA's plantation company PT Solusi Jaya Perkasa (PT SJP) cleared 1,200 ha of peatland forests in Kubu Raya district, West Kalimantan. Land clearing continued beyond December 2016, despite all peat development being a violation of law after that date.<sup>60</sup> Figure 5 shows the concession boundary (marked in grey) and land clearing (marked in red).

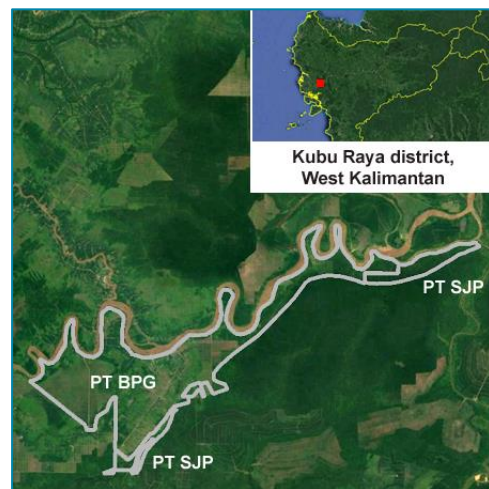
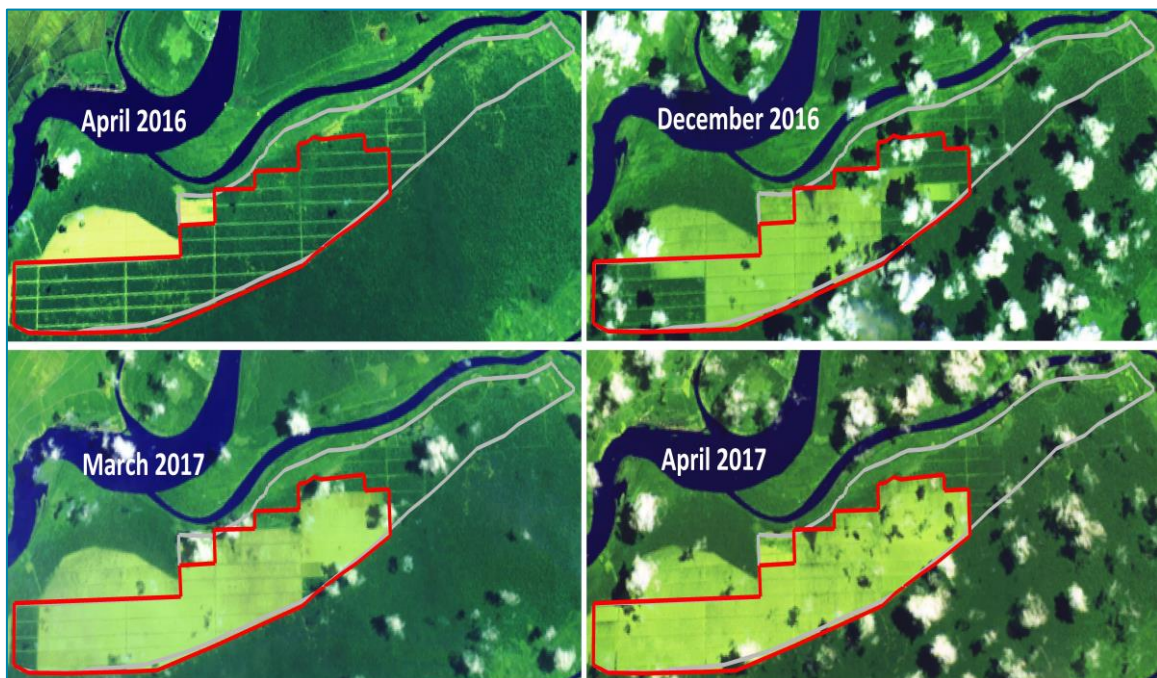


Figure 5. Clearing of peatland forests by TBLA plantation company PT SJP



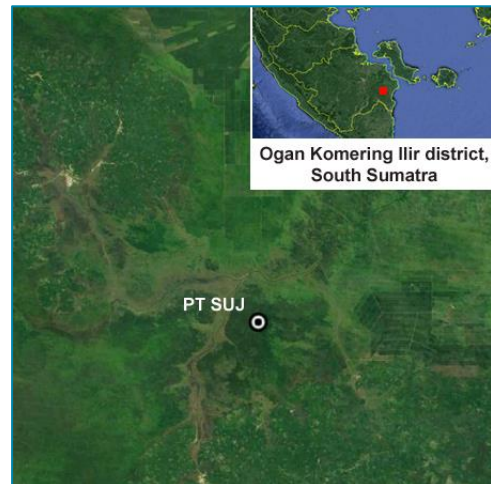


## Land dispute

The transmigration village Perambahan Baru (Banyuasin district, South Sumatra) has a land dispute with TBLA over 600 ha. The dispute has been going on since 2007. According to the community, it was initially agreed with the company that the 600 ha would be subject to a plasma scheme. After some years it would be handed over to smallholders, who would keep on cooperating with TBLA. However, this agreement was not put in writing. Over the years, the community has made several efforts to resolve the dispute, but so far no solution has been found. TBLA insists that the oil palm planted area belongs to the company.<sup>61</sup>

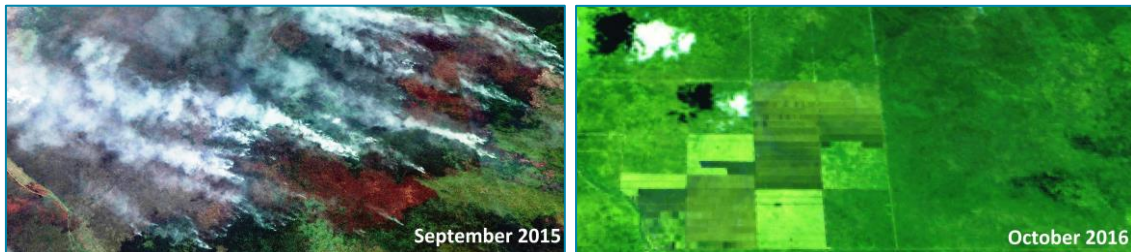
## PT Samora Usaha Jaya

In early November 2015, Indonesia's Minister of Environment and Forestry issued an instruction to palm oil companies prohibiting planting activities on burnt peatlands.<sup>62</sup> In November 2016, the Ministry of the Environment and Forestry discovered TBLA had disregarded this instruction and was developing new canals and conducting new planting activities in areas targeted for restoration by Indonesia's Peatland Restoration Agency (BRG). TBLA had failed to comply with the terms of its forest estate release permit, which the Ministry of Environment and Forestry had granted in 2012 stipulating the area was for sugar cane, not for oil palm.<sup>63</sup>



The TBLA plantation company in question is PT Samora Usaha Jaya (PT SUJ). The satellite imagery below shows peatlands burning in September 2015, and new oil palm development in October 2016.

**Figure 6. Fires and new oil palm plantings in TBLA plantation company PT SUJ's concession area**



### 3.4 The BEST Group – financed by BNI

#### One of the largest palm oil refiners in Indonesia

The BEST Group, owned by the Indonesian Tjajadi family, has around 200,000 ha of oil palm concessions in Central Kalimantan, almost all planted with oil palm. BEST is also a downstream player, and claims to be among the top five largest palm oil refiners in Indonesia. The BEST Group has no NDPE policy. Moreover, none of its plantations have been assessed by the RSPO, and only one of its refinery companies is an RSPO member.<sup>64</sup>

Bank Negara Indonesia (BNI) has long been a major financier of BEST's palm oil operations. In a January 2017 presentation, BNI said BEST had IDR 3.3 trillion (equivalent to USD 250 million) of outstanding agriculture loans with BNI.<sup>65</sup>

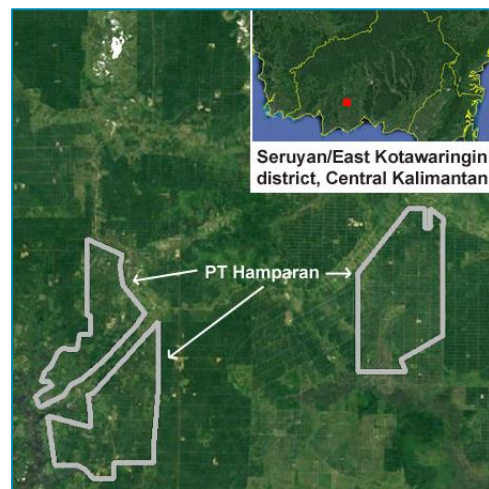
#### Child and forced labour

In late 2016, the NGO Amnesty International investigated and reported on abuses of workers' rights at BEST's plantation company PT Hamparan Masawit Bangun Persada (PT Hamparan).<sup>66</sup>

Amnesty International found children were involved in PT Hamparan's operations. Employees told researchers they had seen children working on the estates helping their parents.

Remuneration paid to PT Hamparan workers was found to be based on productivity targets, which oblige them to work beyond normal working hours and overtime limits laid out under Indonesian law. Only in so doing can workers earn the minimum wage. Under the guiding principles in the handbook of the International Labour Organization (ILO) this amounts to forced labour, since the company imposes excessive working hours on its workers, exploiting their vulnerability, and fear of being paid below the minimum wage.<sup>67</sup>

PT Hamparan was also found to be keeping people on as casual daily labourers for long periods of time, leading to abuses of both men's and women's human rights. The investigation revealed the majority of workers kept on as casual daily labourers are women. PT Hamparan offered no reasonable or objective justification for its failure to offer permanent employment to the majority of women workers employed on its plantations. Amnesty International concluded this differential treatment impairs women's rights to and at work, to health and to social security, and results in discrimination against women workers.



## Fires and peat

In the period from 2012-2016, the BEST Group developed three plantations in Pulang Pisau district, Central Kalimantan on a total area of approximately 55,000 ha, half of which is peatlands. The BEST plantation companies operating in the district are PT Berkah Alam Fajar Mas (PT BAFM), PT Bahaur Era Sawit Tama (PT BEST) and PT Karya Luhur Sejati (PT KLS).

An incredible 1,473 hotspots (confidence > 50%) were recorded inside these concessions from 2013-2015: 244 in 2013; 717 in 2014; and 512 in 2015.<sup>68</sup> The fires typically accompanied plantation development. Fire prevention and mitigation have definitely not featured highly on the BEST Group's list of priorities.

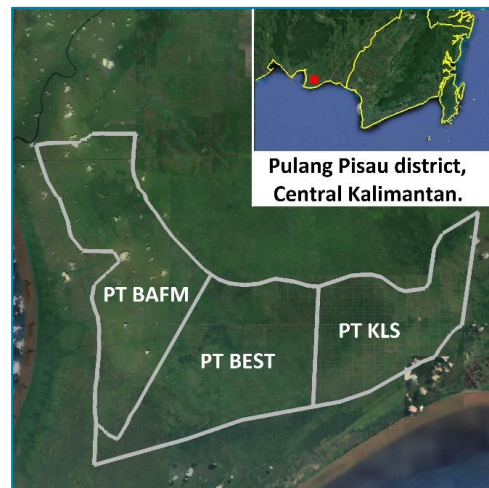
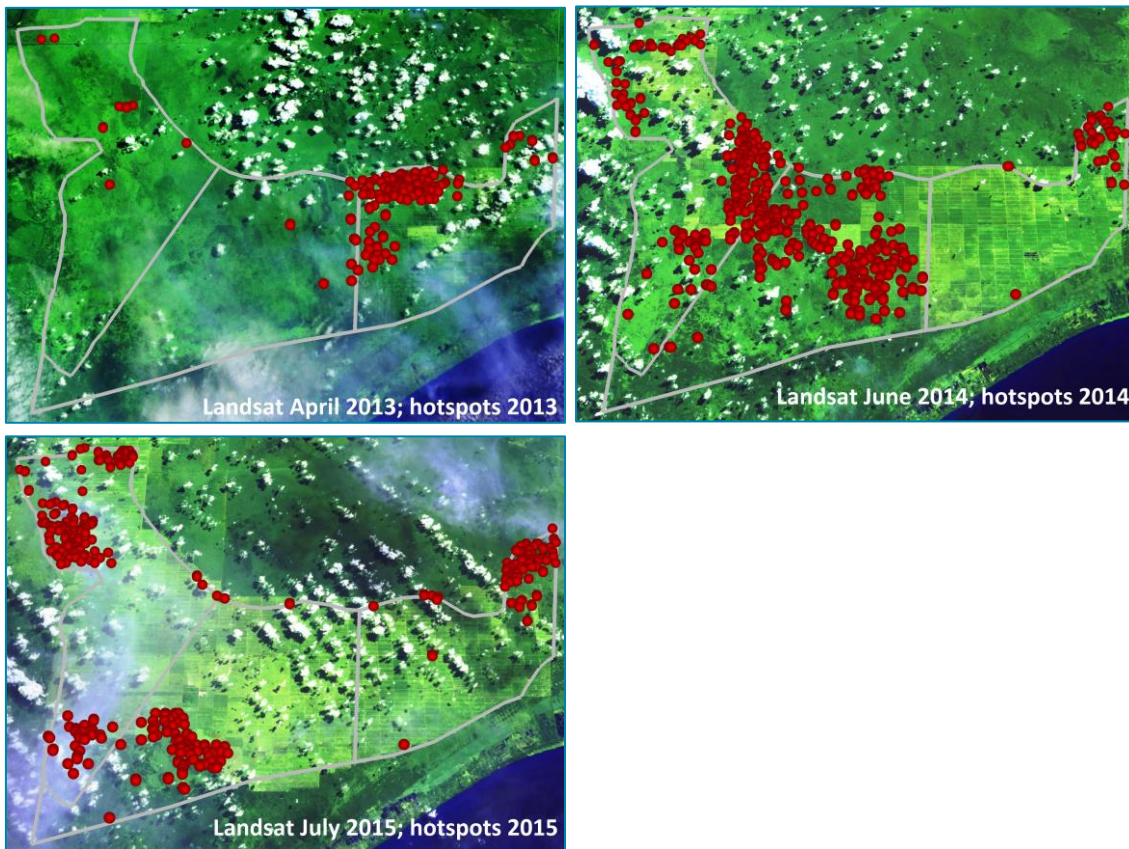


Figure 7. BEST Group land clearing and hotspots in Pulang Pisau district from 2013 - 2015



### 3.5 HPI Agro – financed by BCA customers

#### BCA owners' palm oil operations

The ultimate shareholders of Bank Central Asia (BCA), Mr. Robert Budi Hartono and Mr. Michael Hartono, have their own palm oil operations. The brothers started planting oil palm in 2010 through PT Hartono Plantations Indonesia (HPI Agro). HPI Agro's oil palm land bank currently amounts to more than 100,000 ha. The company's plantations are all located in West Kalimantan, mostly in Landak district.<sup>69</sup> This oil palm estate development was financed mainly by BCA customers' deposits.<sup>70</sup>

#### Two recent cases of deforestation

Two cases of recent forest and/or peatland clearing by HPI Agro plantation companies PT Gemilang Sawit Kencana (PT GSK) and PT Borneo Muria Plantation (PT BMP) are presented below.

#### PT Gemilang Sawit Kencana (PT GSK)

The figure below shows the clearance of 1,500 ha of peatland forest by plantation company PT Gemilang Sawit Kencana (PT GSK) between September 2014 and the end of 2016. Concession boundaries are marked in grey, and cleared areas in red.



Figure 8. Forest clearing by PT GSK

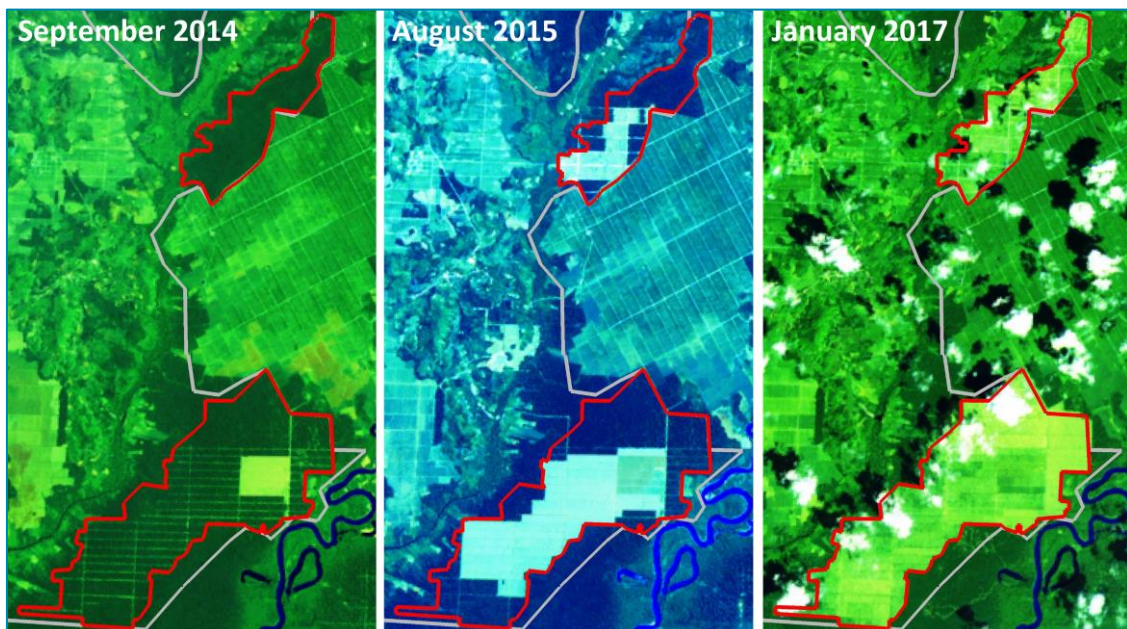


Photo. Clearing of peatland forest by HPI Agro's PT GSK

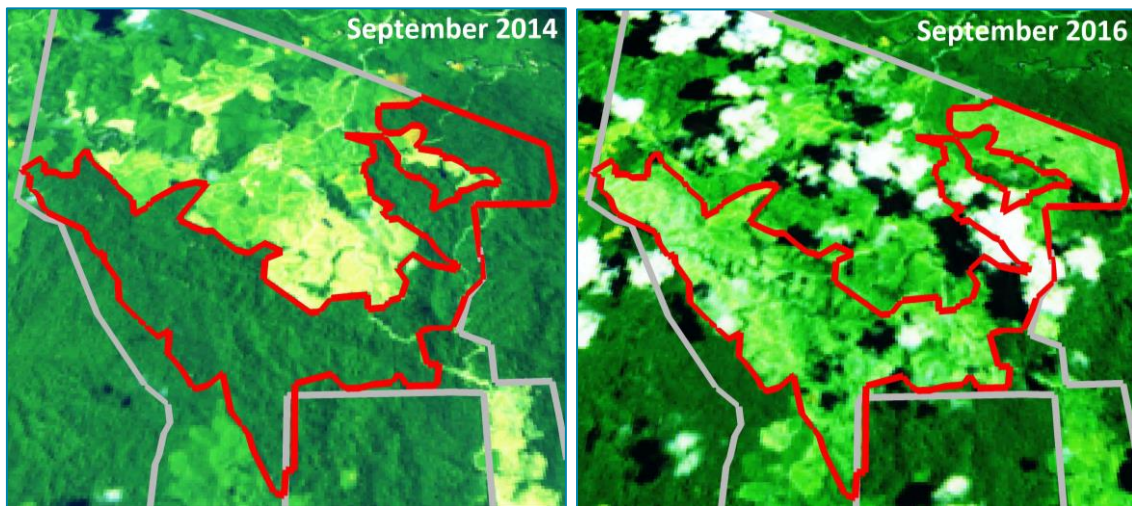


© Aidenvironment (drone photo). Date: January 2016. Coordinates: 0°12'56.54"N; 109°42'11.91"E

#### PT Borneo Muria Plantation (PT BMP)

Figure 9 below shows the clearing of 900 ha of High Carbon Stock (HCS) forest by HPI Agro plantation company PT Borneo Muria Plantation (PT BMP) between September 2014 and September 2016. The concession boundary is marked in grey, and the cleared area in red.

Figure 9. Forest clearing by PT BMP



### 3.6 Korindo – financed by BNI

#### The largest palm oil company in Papua

Korindo is a large enterprise that employs around 20,000 people across Indonesia. Its main businesses are oil palm, logging and pulpwood concessions, as well as plywood, wood chip and palm oil production. Other businesses include newsprint paper manufacturing, heavy industries including wind towers, financing, and real estate. Korindo is controlled by the South Korean Seung family.

Korindo is the largest palm oil company in Papua, with concessions covering 142,000 ha. It also has an 11,000-ha oil palm concession in South Halmahera district, North Maluku province.<sup>71</sup>

In August 2016, a report and accompanying campaign connected Korindo oil palm operations to several environmental and social issues. The ongoing campaign, led by US-based NGO Mighty with support from both Korean and Indonesian NGOs, is urging all of Korindo’s customers to pressure the enterprise into acting in a sustainable manner.<sup>72</sup> Two of Korindo’s main palm oil customers, Wilmar and Musim Mas, had already suspended purchases before the campaign was launched. Musim Mas is currently engaging with Korindo.<sup>73</sup>

Korindo is being confronted over the following environmental and social issues:

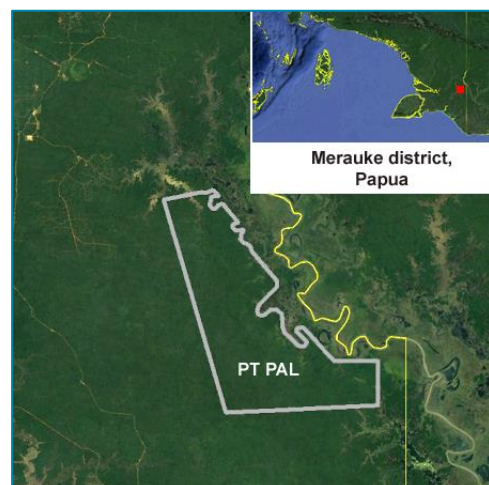
- Since 2013, it has cleared 30,000 ha of tropical lowland forests for oil palm plantations, of which 12,000 ha were primary forests.
- In 2015, Korindo contributed significantly to Indonesia’s haze disaster, which resulted in enormous environmental and economic losses for the country. All evidence – satellite imagery, hotspot data, and aerial photographs – pointed to systematic and abundant use of fire during Korindo’s land clearing processes. This is illegal in Indonesia. During the 2013–2015 period, all Korindo’s land clearing to establish oil palm plantations was accompanied by burning. The land cleared was not even peatland, which is more fire prone than mineral soils when disturbed.
- Most communities in South Halmahera, who have lived there for centuries, are opposed to Korindo’s occupation of their farmlands and forests.

Bank Negara Indonesia (BNI) has long been a major financier of Korindo’s operations. In a January 2017 presentation, BNI reported that Korindo had IDR 2.7 trillion (equivalent to USD 200 million) of outstanding agriculture loans with the bank. BNI also manages payrolls for Korindo employees.<sup>74</sup>

#### PT Papua Agro Lestari

The Korindo company PT Papua Agro Lestari (PT PAL) received a forest estate release permit for 32,300 ha of land from the Ministry of Forestry in 2012. The figure to the right shows the area subject to this permit, 94% of which was primary forest according to the Ministry of Forestry’s forest cover map for 2011.

According to Korindo’s own information, PT PAL received a Right to Cultivate (HGU) permit for 25,200 ha in 2016, 18% of which was designated for smallholder estates.<sup>75</sup>

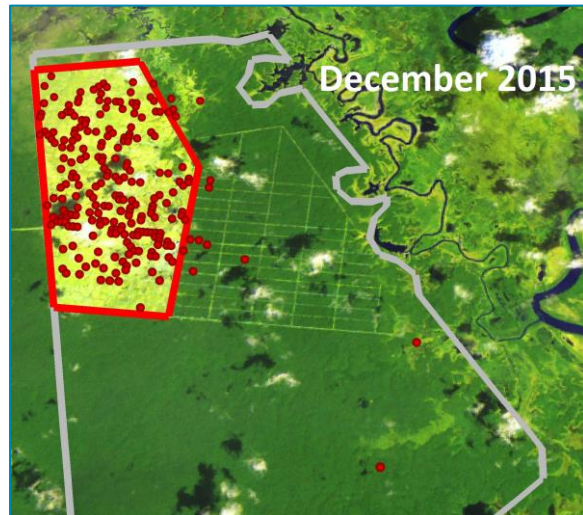


## 2015

PT Papua Agro Lestari (PT PAL) commenced land development after April 2015. By the end of that year, some 2,600 ha of primary forest had been cleared.

This land clearing was accompanied by fires. A total of 221 hotspots (confidence > 50%) were recorded between August and November 2015.<sup>76</sup>

The figure to the right shows the fire hotspots recorded. In 2013 and 2014, prior to land development, there had been no fires at all.



## 2016

In 2016, PT PAL cleared a further 1,900 ha. However, on 1 December 2016, through a national newspaper advertisement the company announced a moratorium on further land development stating the moratorium would last “until we finalize High Conservation Value (HCV) and High Carbon Stock (HCS) studies and reflect them in future plantation development.”<sup>77</sup> As almost all of PT PAL’s concession area constitutes dryland primary forest, any reflection in line with NDPE policies would likely preclude any further clearing of undeveloped areas, as their carbon stock would be too high to allow further development.



## 2017

Korindo’s moratorium was short-lived. By March 2017 the company had cleared another 1,000 ha and carved out plantation blocks for a further 2,100 ha.

The PT PAL website says the 6,300 ha of customary land in Selil village will be spared from clearing. Apparently the community had not given the necessary approval.

PT PAL has not revealed the area of forests under each category from assessments using the HCS approach,<sup>78</sup> and appears to have ignored proper implementation of the approach altogether. This is in sharp contrast with NDPE policies.



### 3.7 Sampoerna Agro – financed by OCBC, Bank Mandiri, BRI, BNI and DBS

#### Rapidly expanding

Sampoerna Agro grows oil palm and, to a lesser extent, sago and rubber. It is listed on the Indonesia Stock Exchange. The company is part of Sampoerna Strategic, which also owns businesses operating in finance, telecommunications, property and timber. The controlling shareholders of Sampoerna Strategic are Mr. Putera Sampoerna and his family.<sup>79</sup>

In September 2016, Sampoerna's oil palm planted area covered 138,000 ha, including smallholder 'plasma' estates.<sup>80</sup> Sampoerna Agro has plantations in South Sumatra, Central Kalimantan and West Kalimantan, but the company has no NDPE policy. Despite being a member of RSPO, its recent developments have not complied with the RSPO Procedures for New Plantings. The company carried out rapid expansion from 2015 to September 2016, adding 10,000 ha of new oil palm plantings.<sup>81</sup>

On 30 September 2016, Sampoerna Agro had outstanding loans totalling IDR 3.5 trillion. Its largest lenders were OCBC NISP at IDR 0.9 trillion, Bank Mandiri at IDR 0.9 trillion, BRI at IDR 0.7 trillion, BNI at IDR 0.5 trillion, Rabobank at IDR 0.3 trillion and DBS at IDR 0.2 trillion.<sup>82</sup>

#### PT Sampoerna Agro

The plantation company PT Sampoerna Agro's 4,800-ha concession area is situated on peatland. Sampoerna has been clearing the area and planting oil palm since 2014.

In September 2015, large fires broke out on the cleared peatlands. The figure below shows the burnt area covering more than 900 ha by March 2016.

In 2015, 105 fire hotspots (confidence > 50%) were recorded inside the concession, while in 2014 there had been 69. The hotspots, occurring in the dry season between July and October, followed draining and land clearing activities. Only one hotspot in total was recorded for the years 2013, 2016 and 2017.<sup>83</sup>

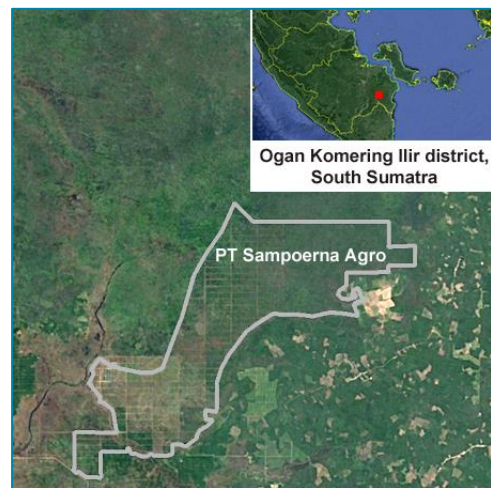


Figure 10: Burning and burnt area in the PT Sampoerna Agro concession

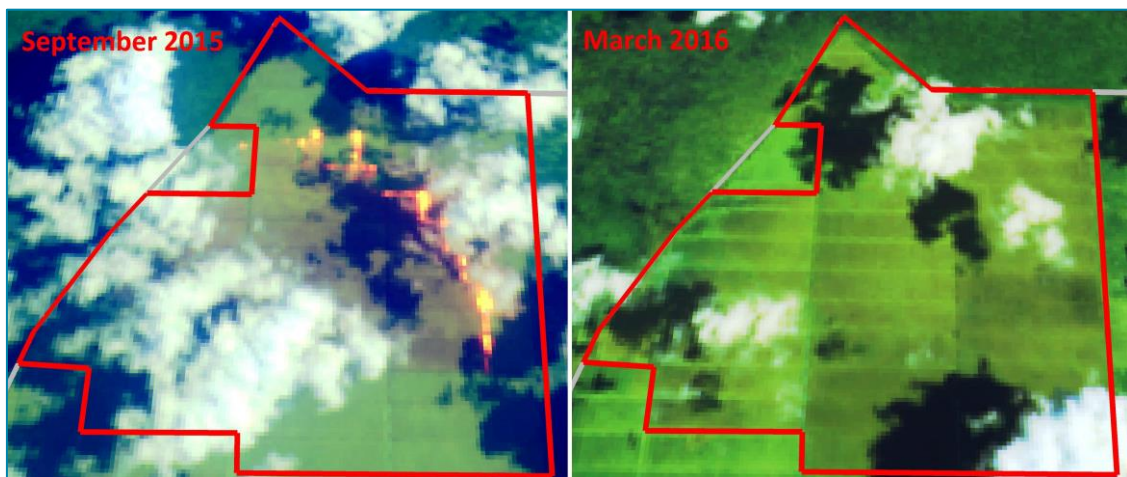
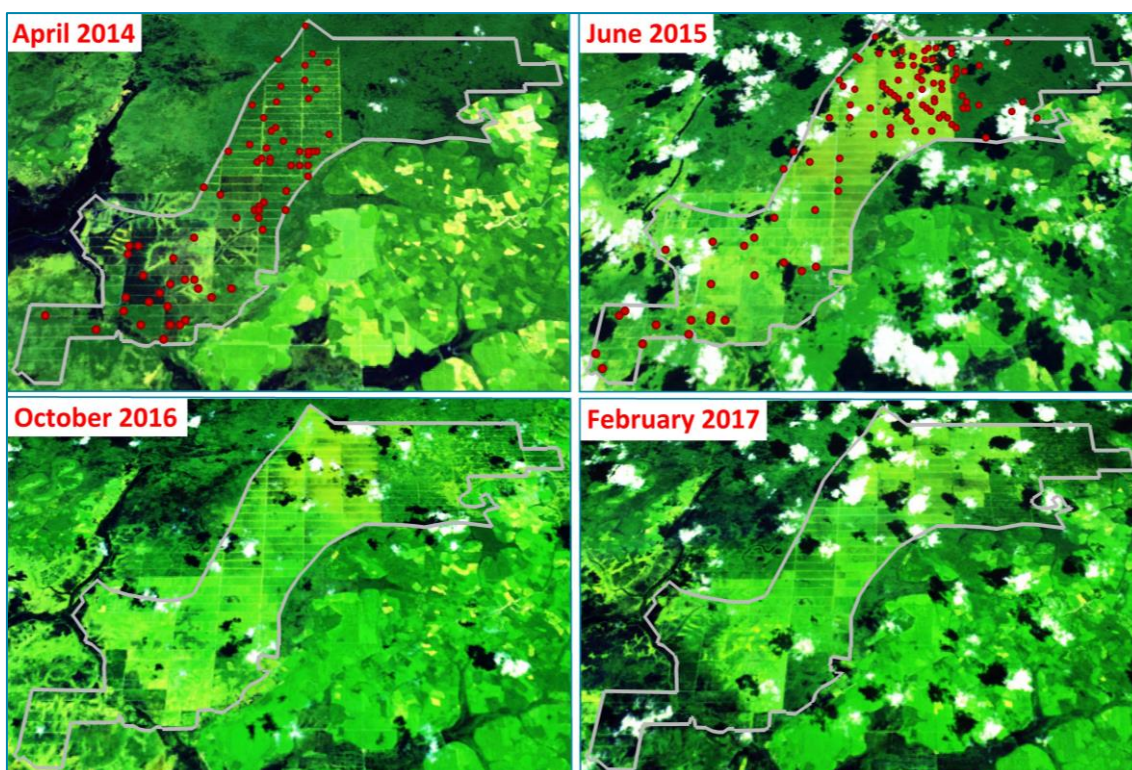




Figure 11: PT Sampoerna Agro land clearing and oil palm planting



The images above show PT Sampoerna Agro's estate development over the years, and the hotspots recorded in 2014 and 2015. In November 2015, Indonesia's Minister of Environment and Forestry issued an instruction prohibiting oil palm estate companies from carrying out planting activities on burnt peatlands.<sup>84</sup> The images from October 2016 and February 2017, however, suggest PT Sampoerna Agro has disregarded the ministerial instruction and continued planting on burnt peatlands.

#### Land disputes in Ogan Komering Ilir district

According to a recent RSPO certification assessment, there are ongoing land conflicts involving several subsidiaries of the parent company PT Sampoerna Agro in Ogan Komering Ilir district, South Sumatra:

- Communities in Sungai Menang village claim 600 ha of Sampoerna's Mega Terang estate;
- Communities in Sungai Menang and Rantau Durian I villages claim rights over part of the PT Mutiara Bunda Jaya concession area; and
- Villagers from Kemang Indah and Mataram Jaya claim ownership of 540 ha inside Sampoerna's Aek Tarum estate concession area.<sup>85</sup>

#### Sampoerna's pending court case

Sampoerna Agro is the subject of a court case with potential for significant negative financial impacts on the company. In August 2016, judges from South Jakarta District Court ordered Sampoerna to pay IDR 1.07 trillion (equivalent to USD 80 million) for compensation and ecosystem restoration. The Indonesian Ministry of Environment and Forestry had filed a civil lawsuit against Sampoerna subsidiary PT National Sago Prima (PT NSP) over forest fires on 3,000 ha it was responsible for in Riau province. According to the ministry, PT NSP had made no effort to prevent fires from spreading inside and outside its sago concession in February and March 2014,<sup>86</sup> had built no fire lookout towers and had no fire fighting teams available. Sampoerna has appealed against the verdict, and the case is still pending. On 30 September 2016, Sampoerna Agro had outstanding loans with DBS of IDR 0.2 trillion obtained for the development of PT NSP.<sup>87</sup>

### 3.8 IndoAgri/Salim – financed by BCA, BNI, Bank Mandiri and DBS

#### Anthoni Salim

Anthoni Salim, Indonesia's third richest person according to Forbes,<sup>88</sup> controls the company Indofood. Indofood is Indonesia's largest food company and one of the world's largest instant noodle producers. Mr. Salim also has stakes in businesses other than Indofood, commonly referred to as Salim Group businesses. Like Indofood, some of these businesses are also involved in oil palm.

Indofood's palm oil company is Indofood Agri Resources (IndoAgri). Its cooking oil brand Bimoli is the market leader in Indonesia, and it also has business operations involving sugar, rubber, oil palm seed and timber. IndoAgri is the parent company of PT Salim Ivomas Pratama (SIMP), which in turn is the parent company of PT PP London Sumatra Indonesia Tbk. (Lonsum). At the end of 2016, IndoAgri's oil palm planted area covered 247,000 ha, primarily in Sumatra and Kalimantan.<sup>89</sup> IndoAgri is an active member of the RSPO, and has recently announced a new sustainability policy that looks like an NDPE policy.<sup>90</sup> However, this new policy has been criticized by NGOs, mainly because it lacks a proper grievance procedure and has weak standards for preserving High Carbon Stock areas.<sup>91</sup>

#### Loans

In a January 2017 presentation, BNI reported that the Salim Group had IDR 2.2 trillion (equivalent to USD 164 million) of outstanding agriculture loans with the bank.<sup>92</sup>

On 31 December 2016, PT Salim Ivomas Pratama had outstanding loans totalling IDR 9.0 trillion (equivalent to USD 673 million). Its largest lenders were BCA at IDR 4.9 trillion, Sumitomo Mitsui at IDR 2.0 trillion, Bank Mandiri at IDR 0.9 trillion and DBS at IDR 0.7 trillion.<sup>93</sup> BCA is far and away the largest lender to PT Salim Ivomas Pratama. This may be due to the fact that Mr. Anthoni Salim is a shareholder with a 1.76% stake in BCA.<sup>94</sup>

#### Violations of workers' rights

In October 2016, the NGOs Rainforest Action Network (RAN), International Labor Rights Forum (ILRF) and OPPUK filed a complaint with the RSPO. According to their investigation, IndoAgri subsidiaries had violated workers' rights on two oil palm plantations in North Sumatra.<sup>95</sup> In addition to carrying out field investigations, the NGOs interviewed forty-one individual workers. Their findings were as follows:

- Many of IndoAgri's long-time workers were categorized as temporary and placed at heightened risk through precarious employment practices.
- Workers were paid unethically low wages.
- Children were observed working on IndoAgri's plantations. One was 13 years old and two were 16 years old.
- Many workers did not get adequate health and safety protection, and casual maintenance workers were exposed to highly hazardous pesticides.
- Freedom of Association was being undermined by the company automatically enrolling permanent workers in a company-backed union.<sup>96</sup>

The RSPO complaint is pending as IndoAgri has asked the complainants to disclose further evidence. The complainants responded saying that disclosing the requested information would reveal the identities of workers interviewed and put them at undue risk of reprisals. The complainants claim their complaint, as confirmed in a subsequent assessment by Accreditation Services International (ASI), already warrants a substantive response from IndoAgri. Such a response from IndoAgri has not been forthcoming.<sup>97</sup>

### Salim in Sintang district

It is common practice among oil palm business leaders to control a publicly listed business group, whilst also owning stakes (directly or through association) in other companies. “Association” generally includes significant shareholdings by family members and/or various layers of associate companies. Mr. Salim also takes part in this practice. Two plantation companies, PT Sawit Khatulistiwa Lestari (PT SKL) and PT Duta Rendra Mulya (PT DRM), are currently operating in an area of peat swamp forest. Mr. Salim is a director of PT SKL, which is majority-owned by a company related to Indomaret, an Indonesian minimarket chain owned by, among others, Mr. Salim. Mr. Salim’s control over PT DRM is concealed under several layers of corporate ownership.

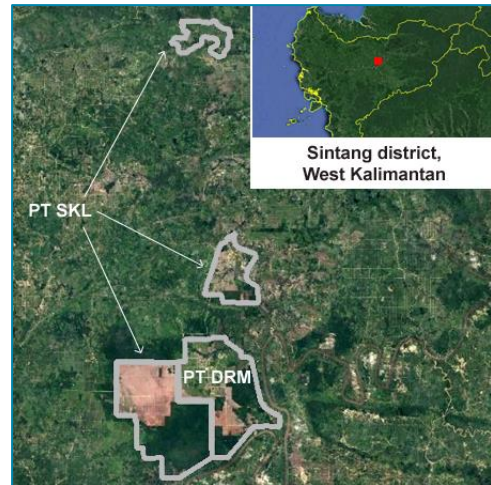
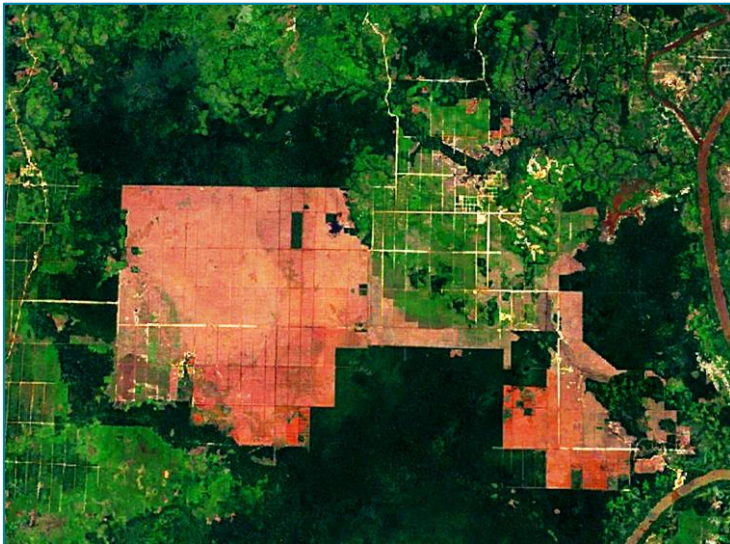


Figure 12. Cleared areas in the PT SKL and PT DRM concessions in August 2016



Since 2013, PT SKL and PT DRM have cleared around 11,000 ha, mostly on peatland, to develop oil palm plantations. During a field investigation in December 2015, Aidenvironment documented peat swamp forest clearance, along with (illegal) logging and evidence of land fires after forest clearance. Further land clearing was ongoing in March 2017, and a further 2,200 ha were cleared between August 2016 and March 2017.<sup>98</sup>

Photo. Burnt trees at Salim’s PT Sawit Khatulistiwa Lestari



© Aidenvironment. Date: December 2015.

### 3.9 Darmex Agro – financed by Bank Mandiri

#### One of the most notorious Indonesian palm oil companies

At some point before the year 2010, Bank Mandiri disbursed loans totalling IDR 1.9 trillion (equivalent to USD 183 million) to Darmex Agro for the development of its plantation business. Several sources indicate the financial relationship between Darmex Agro and Bank Mandiri has continued since then.<sup>99</sup>

Darmex Agro (often referred to as Duta Palma) is one of the most notorious Indonesian palm oil companies. It is also one of the ten largest oil palm growers in Indonesia. On its website, which has not been updated since 2009, the company states it had a planted area of 155,000 ha, mostly situated in Riau province, Sumatra and in West Kalimantan.<sup>100</sup>

Greenpeace investigations in 2007 revealed that Darmex Agro was violating Indonesian laws by clearing peatlands of more than 3 metres in depth and intentionally burning land in Riau province.<sup>101</sup> In late 2011, Greenpeace analysed satellite data from 2007 and 2010 and conducted on-the-ground field investigations, which identified recent forest and peatland destruction caused by the company.<sup>102</sup> In April 2013, Greenpeace stated that Duta Palma had recently cleared hundreds of hectares of largely forested peatland outside the official boundaries of one of its registered concessions, which is mapped as habitat for critically endangered Sumatran tigers.<sup>103</sup>

In 2009, the Indonesia Community Mapping Network filed a complaint with the RSPO about two Duta Palma subsidiaries clearing peatland and using fire to clear land for oil palm plantations. In May 2013, the RSPO executive board decided to terminate PT Duta Palma Nusantara and PT Darmex Agro's RSPO membership.<sup>104</sup> Most major palm oil traders/processors have stopped trading with Duta Palma.<sup>105</sup>

#### 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

### 3.10 Sawit Sumbermas Sarana – financed by Bank Mandiri

#### Financial support for violations of the law

In 2011 and 2012, Bank Mandiri granted investment and working capital credit facilities worth IDR 1.5 trillion to the plantation companies PT SSMS, PT KSA and PT MMS, owned by palm oil company PT Sawit Sumbermas Sarana.<sup>106</sup> In their report dated December 2013, sustainability risk advisors from Chain Reaction Research (CRR) calculated that the three plantation companies had jointly deforested almost 11,000 ha in the period from 2003-2012. Most of this forest was cleared without central government authorization for the conversion of forest estate to oil palm plantations.<sup>107</sup> At the time Bank Mandiri granted these loans, PT Sawit Sumbermas Sarana had yet to obtain central government authorization through forest estate release permits. This means Bank Mandiri was financing a company deep involved in violations of the Indonesian Forestry Act Nr. 41/1999.

In Indonesia, management of the forest estate falls under the statutory jurisdiction of the Ministry of Forestry. Since decentralization was introduced in 1999-2001, the Ministry's exclusive claim over the forest estate has been both ignored and challenged by local authorities who have issued hundreds of permits to oil palm plantation companies, overlapping with millions of hectares of the forest estate. Government Regulation No. 60/2012 dated 6 July 2012 strives to address this problem that comes at great expense to state revenue. The practice of occupying forest estate land does seem to have been less frequent since the introduction of this regulation. Nevertheless, in order to reduce legal and sustainability risks, banks financing palm oil developments would be well advised to check whether palm oil growers have obtained the necessary forest estate release permits.<sup>108</sup>

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



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

## 4. The six Southeast Asian banks and their sustainability policies

### 4.1 Earlier assessments

The Southeast Asian banks reviewed in this report are BRI, Bank Mandiri, BNI, BCA, OCBC and DBS. No fewer than four different assessments conducted in 2015 and 2016 found these six banks are falling short on sustainable lending to the palm oil sector, in comparison with their international counterparts.

#### WWF – May 2015

A May 2015 report by the World Wide Fund for Nature (WWF) found an alarming gap between regional ASEAN financial institutions and the environmental, social and governance (ESG) standards adopted by their international counterparts. The report, which covered the palm oil, timber and pulp & paper sectors, looked at the involvement of ASEAN financial institutions including the six banks reviewed in this report. The international counterparts covered in the report were ANZ, HSBC, Standard Chartered and Westpac, all of which have policies on financing forest-related commodity companies. Overall, the Singaporean banks provided the least relevant disclosure on ESG integration. According to the publication, the three banks majority-owned by the Indonesian government (BRI, Bank Mandiri and BNI) had low or very low scores, but had all disclosed some steps taken to assess ESG in their credit processes.<sup>109</sup>

#### Responsibank – May 2016

In May 2016, the Indonesian NGO Responsibank published an assessment of Indonesian banks' sustainability policies. The assessment comprised 20 themes, of which 'Biodiversity' and 'Forestry' were relevant to oil palm. On these two themes the international banks HSBC, Citibank and Mitsubishi UFJ Financial Group had the best scores, while BRI, Bank Mandiri, BNI, BCA and OCBC NISP all scored zero or just over zero points. DBS was not assessed.<sup>110</sup>

#### Forest & Finance – September 2016

In September 2016, the Forest & Finance project involving NGOs Rainforest Action Network and TuK Indonesia and the consultancy Profundo published an assessment of the environmental/social policies of 27 major banks. Banks could score a maximum of 30 points, divided over 'Scope of Commitments', 'Environmental Standards' and 'Social Standards' categories. DBS, OCBC and Bank Mandiri all scored zero out of the 30; BRI and BNI scored one point each; while BCA was not assessed. The highest ranking banks were the Europe- or US-based ABN Amro, Rabobank, Credit Suisse, Citigroup, Standard Chartered and HSBC. Apparently, ASEAN banks had made little progress since the WWF report from May 2015.<sup>111</sup>

#### Global Canopy Programme – December 2016

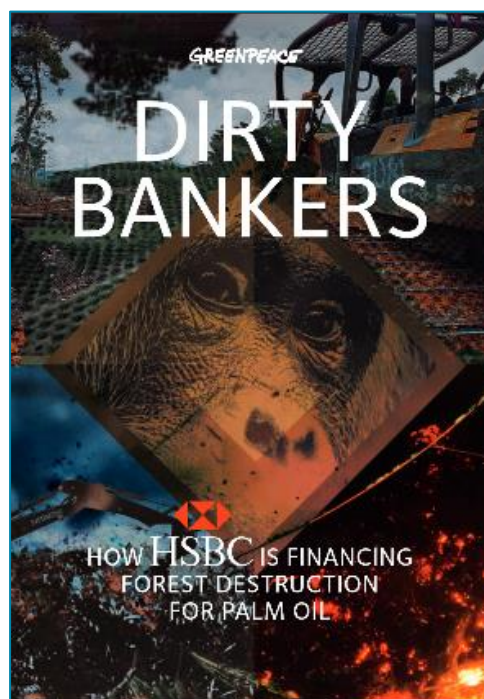
In 2016, the UK-based NGO Global Canopy Programme (GCP) ranked 150 financial institutions on their commitment to addressing deforestation. According to GCP, these companies were the key investors, lenders and other financial institutions exposed to forest risk commodity supply chains. The assessment looked at asset managers as well as banks. Points could be scored for categories including 'Overall Forest Policy', 'Policy Strength and Reporting' and 'Transparency'. The Europe-based banks BNP Paribas, Deutsche Bank and HSBC Holdings Ltd. all scored a maximum five points. BRI surprisingly scored three points, OCBC two points, and Bank Mandiri, BNI, BCA and DBS one point each.<sup>112</sup> The BRI score was

based on a statement in its 2015 sustainability report that BRI requires companies to comply with RSPO certification, but further down in the report it becomes clear that this is not a strict requirement.<sup>113</sup>

### HSBC and Greenpeace – January/February 2017

One of the highest scoring banks in the four assessments described above was the UK-based HSBC Group. In January 2017, HSBC stated that since March 2014 it had been setting “firm dates by which customers had to complete (RSPO) certification”. In addition, it had decided to “close banking relationships with 60 forestry and 104 palm oil customers.”<sup>114</sup> HSBC did not provide the company names. Without such specifics, the figure provides very little in the way of useful information.

HSBC did strengthen its policies in March 2014. It would no longer knowingly provide financial services to palm oil growers and mills involved in: “illegal operations; land clearance by burning; the conversion of areas (often forests) necessary to protect high conservation values; child labour or forced labour; the violation of the rights of local communities; and operations where there is significant social conflict.” Moreover, existing clients were required to have at least one operation RSPO certified and the remainder of their operations certified by December 2018. New clients with new operations had to certify 100% of their operations within 4 years. Refiners and traders would also have to speed up RSPO certification and have plans to exclude controversial sources from their supply chains.<sup>115</sup>



While the HSBC policy seems to have yielded positive results with regard to sustainability, apparently full implementation had not occurred. In January 2017, Greenpeace released a report entitled Dirty Bankers containing many examples of how HSBC was still financing forest destruction for palm oil.<sup>116</sup> Greenpeace also noted that 5 of the 6 company groups mentioned in the report would not meet HSBC’s 2018 RSPO deadline, while the other one was not even a member of the RSPO.<sup>117</sup> This goes to show that banks may not always implement their sustainability policies.

On 20 February 2017, HSBC revised its policy. Firstly, it included the protection of High Carbon Stock (HCS) forest and peatlands as a precondition for providing financial services. This makes its policy consistent with the No Deforestation, No Peat, No Exploitation (NDPE) policies now common in the market place. Secondly, HSBC extended its policy to include refiners and traders. Thirdly, the revised policy requires any new customers to consent to HSBC being able to disclose their relationship before any financial services are provided.<sup>118</sup> Citing client confidentiality reasons, HSBC had been unwilling to discuss individual cases with Greenpeace. This non-transparency is applied by many banks financing oil palm, and means stakeholders can barely assess whether banks are actually implementing their sustainability policies. HSBC admitted its non-transparency had caused “frustration”, hence its policy revision.

## 4.2 Positive moves?

### Indonesian pilot project: The first step to becoming a sustainable bank

In November 2015, eight Indonesian banks (including Bank Mandiri, BCA, BRI and BNI) committed to participating in a pilot project called “First step to be a sustainable bank”.<sup>119</sup> For 18 months beginning in January 2016, the participating banks are being assisted by the Indonesian Financial Services Authority and WWF Indonesia to begin implementing sustainable banking practices. This involves the development of a policy framework on integrating environmental, social, and governance (ESG) aspects such as:

- Identifying current ESG integration;
- Determining ESG integration targets;
- Developing and integrating a policy framework for sustainable banking at the corporate level; and
- Establishing a responsible lending policy for the palm oil sector.

### Singaporean banks

In October 2015, amidst the haze from fires in Indonesia, the Singaporean banks DBS and OCBC stated they would include ESG aspects before lending to oil palm operations.

In a Bloomberg news agency article, DBS said, “When making loans to companies, we do conduct assessments of how such companies address material risks, including where relevant, their exposure to environmental or social risks. Of the oil palm plantation companies we bank, all have zero burning policies. In the event they are found to be in breach, we are prepared to re-assess the banking relationship.” The bank also stated it was planning to enhance disclosure on responsible financing.

OCBC said it would “consider environment, social and governance factors in our lending,” and Vincent Choo, the bank’s chief risk officer, went on to say, “We have, in instances, turned down opportunities in financing companies.”<sup>120</sup>

On 8 October 2015, the Association of Banks in Singapore (ABS) launched its minimum standards on responsible financing. The standards were clearly written with oil palm in mind. All the main oil palm sustainability issues are mentioned: greenhouse gas emissions, deforestation and forest degradation, loss of biodiversity and critical ecosystem services, labour standards, community relations and engagement, human rights, and basic necessities of local communities or indigenous people.<sup>121</sup> DBS and OCBC both support these standards.

In February 2017, Monetary Authority Singapore (MAS) stated that local banks had established internal taskforces on environment, social and governance issues to help integrate the ABS Guidelines into their lending and business practices. Loan decisions relating to companies assessed to have high environmental risks would be escalated to the banks’ senior management, according to MAS.<sup>122</sup>

However, the local NGO People’s Movement to Stop Haze (PM.Haze) stated in April 2017 that banks’ progress in implementing the ABS Guidelines was still neither clear nor evident.<sup>123</sup>

In the following sections the present sustainability policies of the two Singaporean banks and the four Indonesian banks are reviewed.



### 4.3 Bank Rakyat Indonesia (BRI)

#### Sustainability policy

BRI's sustainability report for 2016 had yet to be published by the time this report was finalized at the end of April 2017.<sup>124</sup> In its 2015 sustainability report, BRI stated that on 31 December 2015, two of its loan recipient companies with total loans of IDR 4.1 trillion had RSPO certification, seven with loans totalling IDR 10.4 trillion already had ISPO certification, and another 41 companies with loans totalling 18.6 trillion were in the process of obtaining ISPO certification.<sup>125</sup>

BRI does not grant loans to corporations with a black PROPER rating.<sup>126</sup> In the case of companies that have already secured long-term loans, but whose PROPER ratings have been downgraded, BRI will give warnings and provide assistance as needed. The application of these policies has driven companies in Indonesia to continue improving their environmental performance.

BRI stated in its annual report for 2013 that it has a "policy to offer investment or working capital loans only to industries that apply environmentally friendly practices."<sup>127</sup> However, it did not provide any further details.

In September 2016, BRI's corporate secretary, Hari Siaga, said before disbursing a loan, the bank required companies to have plantation business permits from the Ministry of Agriculture, business permits, company registration certificates and 'Amdal' environmental impact assessments.<sup>128</sup>

In its annual report for 2016, BRI wrote the following under the heading Responsibility to the Environment: "The bank tried to apply the principles of Green Banking on lending, especially in the segment of the corporations engaged in the agricultural sector."<sup>129</sup> BRI provides little information on its practices with regard to responsible lending.

BRI has yet to provide any substantial information on how it could help in transforming Indonesia's oil palm sector towards sustainability.

### 4.4 Bank Mandiri

#### Sustainability policy

A presentation given by Bank Mandiri in June 2014 shed some light on its criteria for granting loans. Though the bank had said it requires its clients to consider environmental aspects, this requirement was not specified in its presentation.<sup>130</sup> Researchers for the May 2015 WWF report also mentioned Bank Mandiri saying it applies ESG standards in its credit assessments, yet they could not confirm from the disclosure whether ESG assessments also applied to client approval.<sup>131</sup>

During the presentation given in June 2014, Bank Mandiri also stated that in line with the prevailing Indonesian government regulation on peatlands it would not allow oil palm cultivation on peatlands of more than 3 metres in depth. The bank did not appear to have any requirements concerning High Conservation Value (HCV) and High Carbon Stock (HCS) areas, avoiding all peatlands or respecting the concept of Free, Prior and Informed Consent (FPIC) for local communities.

According to the presentation, Bank Mandiri requires companies requesting loans to at least have a plantation business permit (*Ijin Usaha Perkebunan* (IUP)), and demands collateral covering 100% of the exposure, and preferably a right to cultivate (*Hak Guna Usaha* (HGU) permit).<sup>132</sup> In September 2016, Bank Mandiri corporate secretary, Rohan Hafas, said, "We will only finance corporations that have met

our requirements and licensing regulations. In this context, we will provide loans to plantation companies that have all the required permits, for example, the environmental impact analysis (*Amdal*) and other permits. Legality is always a major concern before we decide to disburse a loan."<sup>133</sup>

In February 2016, the head of the Pekanbaru branch of Bank Mandiri in Riau province, Sumatra was even quoted as stating, "We no longer approve credit proposals to finance development of new oil palm plantations in peatlands."<sup>134</sup> Bank Mandiri has not responded to this report's many efforts to seek confirmation of this statement. The company has yet to provide any substantial information on how it could help in transforming Indonesia's oil palm sector towards sustainability.

**Photo. Bank Mandiri headquarters in Jakarta**



Photo credit: Chongkian. Date: 5 March 2014.

## 4.5 Bank Negara Indonesia (BNI)

### Sustainability policy

BNI's sustainability report for 2016 had yet to be published by the time this report was finalized. In its annual report for 2016 and sustainability report for 2015, the bank says it prioritizes lending to environmentally friendly businesses. In addition to companies engaged in renewable energy, it also prioritizes companies involved in one of more of the following:

- Conducting energy efficiency and conservation;
- Making efficient use of natural resources;
- Implementing initiatives to mitigate greenhouse gases (carbon emissions);
- Applying sustainability principles in business operations; and
- Using waste as fuel for environmentally friendly production.<sup>135</sup>

### Safeguards?

In its sustainability report for 2014, BNI stated that by the end of 2014 it had disbursed a total of IDR 8 trillion in loans to 17 palm oil companies that had applied for RSPO or ISPO certification. Of these 17 companies, 6 were already RSPO certified, 3 were in the process of obtaining RSPO certification, 3 were already ISPO certified, and 5 were in the process of securing ISPO certification.<sup>136</sup> In September 2014, a BNI representative stated, "We educate them (clients) to better care for the environment and social aspects."<sup>137</sup>

BNI's sustainability report for 2015 disclosed no further information on encouraging palm oil companies to secure RSPO or ISPO certification. Data in its 2014 sustainability report are useless for the purpose of analysing BNI's actions with regard to sustainable loaning: firstly, the 17 companies it mentions comprise only a small part of BNI's total lending; secondly, it appears the companies already implementing certification were not necessarily encouraged to do so by BNI; and thirdly, it is unclear what BNI actually means by "already RSPO certified". Does it mean at least one of the company group's palm oil mills or supply bases has been RSPO certified? There are huge differences between company groups with regard to progress on RSPO certification, yet BNI provides no further explanation.

In September 2016, a BNI director stated that in disbursing credit, the bank always applies principles of prudence in accordance with the law, and that it requires borrowers to pass environmental impact assessment (*Amdal*) testing before commencing a project.<sup>138</sup>

### SRI-Kehati Index

BNI occasionally refers to its listing on the so-called SRI-Kehati Index to defend its sustainability efforts. In December 2014, it published a press release partly attributing its SRI-Kehati Index listing to its encouragement of RSPO and ISPO certification among its clients. In September 2016, BNI's corporate secretary, Ryan Kiryanto, said, "BNI has been recognized as a 'green' bank. The bank is also included on the Sri-Kehati index."<sup>139</sup>

The SRI-Kehati Index is an Indonesian Biodiversity Conservation Trust Fund (Kehati) initiative. BRI, Bank Mandiri and BCA have been listed in the SRI-Kehati Index for years; however, the criteria for companies becoming listed are not published.<sup>140</sup> BNI's listing on any sustainability index is in sharp contrast with the results of assessments of its sustainability policy in 2015 and 2016 (see section 4.1).

## PROPER

In its sustainability report for 2013, BNI stated, “BNI no longer provides loans for corporations that have red or black PROPER rating.”<sup>141</sup> It has also provided disclosure of total corporate loans by PROPER rating over the last three years, demonstrating its implementation of this policy.

**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.

## 4.6 Bank Central Asia (BCA)

In its annual report for 2015, BCA states, “BCA is committed to positioning its CSR philosophy and objectives as an integral part of its business activities.” However, no information could be found on the bank’s sustainability criteria for granting loans to the oil palm industry.<sup>142</sup> In its annual report for 2016, BCA lists a range of activities in the field of corporate social responsibility (CSR), but again there is no information on responsible lending.<sup>143</sup>

BCA has yet to provide any substantial information on how it could help in transforming Indonesia’s oil palm sector towards sustainability.

## 4.7 OCBC

In its annual report for 2015, OCBC states:

- “OCBC has a policy of not supporting any credit extension where safeguards to environmental, social and governance (“ESG”) risks are not adequately managed. Such extension requires escalation to the highest level of management to ensure that the Bank is satisfied that the borrower has an effective mitigation plan in place.”<sup>144</sup>
- “Credit extensions are offered only after a comprehensive assessment of the borrower’s creditworthiness, suitability and the appropriateness of the product offered, as well as an understanding of the borrower’s approach in managing ESG risks associated with its business or industry.”<sup>145</sup>

On the Guidelines on Responsible Financing launched by the Association of Banks in Singapore in October 2015, OCBC states in its annual report for 2015 that, “Over the next 12 to 18 months, we will be reinforcing our existing frameworks, formalizing our Environment, Social and Governance (“ESG”) risk practices into policies, including developing new ones where relevant.”<sup>146</sup> OCBC’s annual report for 2016 mentions the progress it has made saying, “We have formalised the requirement to include environmental, social and governance (“ESG”) assessments especially for high-risk sectors in our credit evaluation process. (...) We have since developed a new Responsible Financing Framework, a supporting Responsible Financing Policy and a governance structure for progressive enterprise-wide implementation starting 2017. We are also working towards disclosing our sustainability commitments and practices in accordance to Singapore Exchange Limited (“SGX”) Listing Rules 711A and 711B.”<sup>147</sup>

OCBC’s annual report for 2016 already provides some information on the new Responsible Financing Framework. Borrowers are subject to an ESG risk assessment covering criteria such as pollution prevention, biodiversity and areas protected by law, as well as occupational health and safety. Its requirements represent standards/conventions from organisations such as the International Finance Corporation (IFC), United Nations (UN) and International Labour Organisation (ILO). Transactions with a high ESG or reputational risk will be escalated to the Reputational Risk Review Group for review and clearance prior to credit approval. Borrowers will be required to comply with ESG milestones, as agreed between OCBC and the borrower.<sup>148</sup>

It remains unclear what OCBC did in 2016 to improve responsible lending, in light of what it said it was already doing in its annual report for 2015. OCBC’s 2016 annual report also states, “We will be developing sector-specific policies for our top exposures in the next phase of our Responsible Financing Programme.”<sup>149</sup> This suggests the new Responsible Financing Framework, to date, contains no standards specific to the oil palm sector.

Despite OCBC being one of the main financiers of Indonesian palm oil development, financing many oil palm companies with large operations in Indonesia, it still states, “We do not have significant concentration in any of the high-risk sectors under the ABS Guidelines on Responsible Financing.”<sup>150</sup> This is a very worrying statement considering the ABS Guidelines were written expressly with oil palm in mind. It appears OCBC is shying away from occupying a major role in helping transform the palm oil sector in Indonesia.

## 4.8 DBS

In its annual report for 2015, DBS Bank states:

- “We adopt fair dealing practices and are committed to advancing responsible financing as part of our role in promoting sustainable development.”
- “When making loans, we assess how our customers address material risks, including their exposure to environmental and social risks where relevant. In accordance with corporate policy, companies with business activities assessed to have material environmental and/or social risks require additional due diligence.”<sup>151</sup>

On the Guidelines on Responsible Financing launched by the Association of Banks in Singapore in October 2015, DBS Bank states in its annual report for 2015 that, “DBS is committed to fully implementing the ABS guidelines by 2017.”<sup>152</sup> In its annual report for 2016 published in April 2017, DBS states that in 2016 it integrated ESG issues into its Core Credit Risk Policy, and developed a new Responsible Financing Standard, which is now part of the Core Credit Risk Policy. No public information on this Core Credit Risk Policy or Responsible Financing Standard is available as yet. DBS still has no specific policy on financing oil palm development.<sup>153</sup>

Like OCBC, DBS has yet to come out with any substantial information on its contributions to the oil palm industry transformation.

**Photo. Clearing of peatland forests by the Indonesian company Tunas Baru Lampung**



© Aidenvironment (drone photo). Date: January 2016. Coordinates: 0°17'31.02"S; 109°52'18.29"E

## 5. Nordic investors in the six Southeast Asian banks

### 5.1 Two billion US dollars

#### Direct shareholdings

Nordic asset managers have direct shareholdings worth USD 2 billion in the six main Southeast Asian banks financing the Indonesian palm oil industry.

By far the largest shareholder, with stakes worth USD 1.3 billion in these banks, is the Norwegian Government Pension Fund Global (GPF). The second largest is Nordea with USD 300 million, while the remainder of the top five comprises AP-fonderna with USD 163 million, Swedbank with USD 140 million, and Handelsbanken with USD 66 million.

Nordic asset managers also invest in or offer investment funds from other asset managers. These include investment funds of companies such as Blackrock, Vanguard and State Street, the world's largest asset managers.<sup>154</sup> Only Nordic investors' self managed funds have been taken into account in this report.

**Table 4. Nordic investors' direct shareholdings in the six Southeast Asian banks (USD million)**

Banks financing oil palm → Nordic asset managers ↓	Total	DBS	OCBC	BRI	Mandiri	BCA	BNI
GPF	<b>1,349</b>	603	445	59	162	59	21
Nordea	<b>260</b>	67	19	113	0	0	61
AP-fonderna	<b>163</b>	45	51	11	21	27	8
Swedbank	<b>140</b>	112	4	12	5	6	1
Handelsbanken	<b>66</b>	9	8	42	1	6	0
KLP	<b>33</b>	13	12	2	2	3	1
Storebrand	<b>30</b>	5	6	5	5	6	3
Länsförsäkringar	<b>24</b>	9	3	0	0	12	0
Skandia	<b>15</b>	2	2	0	1	10	0
Danske Bank	<b>10</b>	1	6	2	0	1	0
SEB	<b>9</b>	2	2	3	1	1	0
DNB	<b>2</b>	1	1	0	0	0	0
<b>Total</b>	<b>2,101</b>	<b>869</b>	<b>559</b>	<b>249</b>	<b>198</b>	<b>131</b>	<b>95</b>

#### Questionnaire sent for this report

For this report we sent a questionnaire to the 12 Nordic asset managers it covers. The questionnaire is presented as Annex 2 of this report. All the asset managers responded to the questionnaire, and their answers revealed some interesting information:

- Most asset managers stated that banks' lending practices should be part of their sustainability screening and subsequent decisions on whether or not to invest in those banks.

- Most asset managers were unaware or only slightly aware of the oil palm finance role of the six Southeast Asian banks.
- Very few asset managers had engaged with any of the six banks on this issue.
- Four of the twelve asset managers are investing in one or more of the Southeast Asian banks through funds they proclaim to be ethical.
- Most asset managers said their attention is focused on palm oil companies rather than the banks financing their operations.
- Most asset managers showed an interest in participating in a collaborative initiative to approach the six banks, and await concrete proposals.

**Table 5. Overview of answers to the questionnaire**

	<b>Were you aware the six banks are financing palm oil?</b>	<b>Have you engaged with any of the six banks on this issue?</b>	<b>Would you be interested in participating in a joint-initiative to engage with these banks?</b>
AP 1-4	No response	No	Yes
AP 7	Two of them	No	Yes
Danske Bank	In general	No	No
DNB	No response	No	Yes
GPIFG	No response	No response	No response
Handelsbanken	Two of them	No	Yes
KLP	No	No	Yes
Länsförsäkringar	Two of them	No	Yes
Nordea	In general	With one	Yes
SEB	No	No	Yes
Skandia	Yes	With one	Yes
Storebrand	No	No	Yes
Swedbank	No	No	Yes

### Investment policy relevant to palm oil

Civil society organisations in Sweden and Norway have recently assessed the sustainability policies of Nordic banks by following the Fair Finance Guide methodology used in many countries.<sup>155</sup> The figure below shows the final scores of ten banks assessed in 2016 on criteria relevant to oil palm. The sustainability policies of the two pension funds (GPIFG and AP-fonderna) are described briefly in the sections below.

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 adopt the principle of Free, Prior and Informed Consent (FPIC) for indigenous and other local communities for all of their financial activities.



Figure 13. Scores of 10 Nordic banks for sustainability criteria relevant to palm oil

The banks' policy commitments assessed by		FairFinanceGuide <sup>®</sup> Sverige		EtiskBankGuide Norge		Danke Bank DNB		Handelsbanken KLP		Länsförsäkringar Nordea		SFB		Skarpia		Swedbank		Storebrand	
Nature #1: Companies prevent deforestation and protect natural forests including old growth forests, bogs, mangroves and rainforests, as described in the High Conservation Value (HCV) concept.		No	Partly	Yes	Yes	Yes	Yes	Partly	Yes	Yes	Yes	Partly	Yes	Yes	Partly	Yes			
Climate Change #18; Food #16: Conversion of peatland and high-carbon stocks for agricultural development is unacceptable.		No	No	Partly	Yes	No	No	No	No	No	No	No	No	No	No	Yes			
Human rights #3: Companies respect all human rights as described in the United Nations Guiding Principles on Business and Human Rights.		Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes			
Human rights #5: Companies have a <i>human rights due diligence</i> process to identify, prevent, mitigate and account for how they address their impact on human rights.		Yes	Partly	Yes	Partly	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes			
Human rights #6: Companies have processes to enable the <i>remediation</i> of any adverse human rights impact to which they cause or to which they contribute.		Yes	Partly	Yes	Partly	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes			
Human rights #7: Companies prevent conflicts over land rights and acquire natural resources only by engaging in meaningful consultation with local communities and obtaining free, prior and informed consent (FPIC) when it concerns indigenous peoples.		No	Partly	Partly	Yes	Yes	Partly	Partly	Partly	Partly	Partly	Partly	Partly	Partly	Partly	Yes			
Human rights #8: Companies prevent conflicts over land rights and acquire natural resources only with free, prior and informed consent (FPIC) of the land users involved.		No	No	No	Yes	No	No	No	No	No	No	No	No	No	No	Yes			
Labour rights #1-4; Food #2: Companies respect the ILO Declaration on Fundamental Principles and Rights at Work.		Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes			

## 5.2 The Norwegian Government Pension Fund Global (GPFG)

### Introduction

The Norwegian Government Pension Fund Global (GPFG) was established in 1990 to ensure current and future generations benefit from Norway's large state petroleum revenues.<sup>156</sup> At the end of 2016, the overall value of GPFG amounted to NOK 7,510 billion<sup>157</sup> (equivalent to USD 871 billion). This makes GPFG the world's largest sovereign wealth fund.<sup>158</sup> GPFG owns more than 1% of the world's listed stocks and holds equities of more than 9,000 companies. On 31 December 2016 equities formed 62.5% of GPFG's total value, while fixed-income investments formed 34.3% and real estate investments accounted for the remaining 3.2%.<sup>159</sup>

The Norwegian parliament (the *Storting*) has, under the Government Pension Fund Act, made the Ministry of Finance responsible for the management of GPFG. Operational management is carried out by Norges Bank Investment Management (NBIM), and the Ministry has issued provisions on NBIM's management in a separate mandate. This mandate describes the general investment framework for the GPFG and stipulates requirements with regard to risk management, reporting and responsible investment practices.<sup>160</sup>

GPFG also has a Council on Ethics whose role is to evaluate the extent to which GPFG investments in specified companies are consistent with ethical guidelines. The Council may investigate matters on its own initiative or at the request of NBIM. NBIM manages GPFG and makes decisions to exclude companies from the portfolio based on advice from the Council.<sup>161</sup> The Council's recommendations are made public on its website.

## Direct shareholdings in the Southeast Asian banks

GPFG is one of the world's largest shareholders in the six main banks financing Indonesian palm oil development:

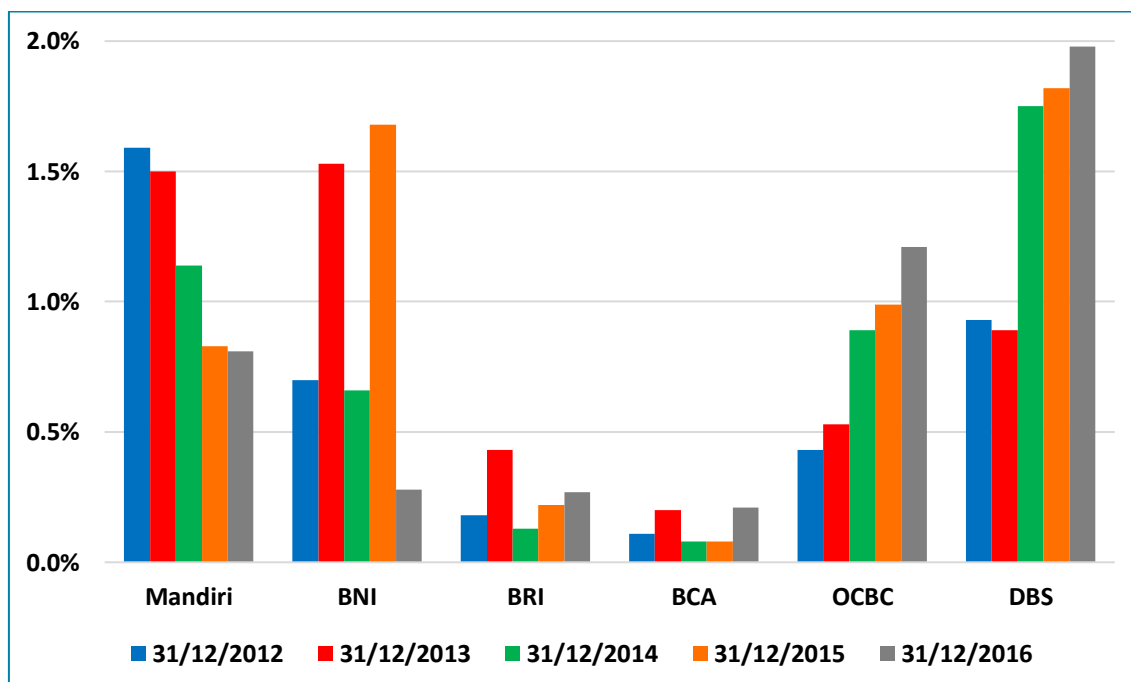
- At the end of 2016, the market value of its equity holdings in **Bank Mandiri** amounted to NOK 1.4 billion (equivalent to USD 162 million), or 0.81% of Bank Mandiri's shares.<sup>162</sup> This puts GPFG in the top ten largest shareholders in Bank Mandiri.<sup>163</sup>
- At the end of 2016, the market value of its equity holdings in **DBS** amounted to NOK 5.2 billion (equivalent to USD 603 million), or 1.98% of DBS's shares.<sup>164</sup> GPFG is one of the largest shareholders in DBS,<sup>165</sup> and its ownership has been increasing steadily year on year.
- Similarly, GPFG ownership of **OCBC** has also been increasing steadily by the year. At the end of 2016, the market value of its equity holdings in OCBC amounted to NOK 2.7 billion (equivalent to USD 314 million), or 1.21% of OCBC's shares. This cements GPFG's firm position in the top ten largest shareholders in OCBC. At the end of 2016, GPFG also held OCBC corporate bonds worth USD 131 million.<sup>166</sup>
- GPFG ownership of **Bank Negara Indonesia (BNI)** has fluctuated significantly over the years. At the end of 2016 it was at its lowest point in four years with the market value of its equity holdings in BNI amounting to NOK 183 million (equivalent to USD 21 million), or 0.28% of BNI's shares.<sup>167</sup> This now positions GPFG outside the top ten largest shareholders in BNI, a position it still held at the end of 2015 with its 1.68% share of ownership.<sup>168</sup>

GPFG is the largest Nordic shareholder in DBS, OCBC, Bank Mandiri and BCA.

**Table 6. GPFG's direct shareholdings in the Southeast Asian banks on 31/12/2016 (USD million)**

	Total	DBS	OCBC	BRI	Mandiri	BCA	BNI
GPFG	1,349	603	445	59	162	59	21

**Figure 14. GPFG ownership of the six Southeast Asian banks by year**



Source: Government Pension Fund Global (GPFG) holding of equities

GPFG currently has almost no direct shareholdings in palm oil companies in its portfolio as it divested from more than 30 palm oil companies between 2012 and 2015. Its divestment focus was on companies operating oil palm plantations in Malaysia and Indonesia, with a relevant business mix allocated to palm oil production.<sup>169</sup> Its latest palm oil divestment decisions were made in August 2015, when NBIM decided to exclude Genting and its subsidiary Genting Plantations, POSCO/Daewoo and IJM Corporation from its investment portfolio. Decisions to exclude these companies were based on an assessment of the severe environmental damage risks posed by their palm oil operations.<sup>170</sup>

### Investment policy relevant to palm oil

GPFG is a major player in the field of Socially Responsible Investing (SRI). NBIM uses a variety of responsible investment tools. It promotes international principles and standards, expresses its expectations as an investor, and exercises active ownership through voting and engagement with companies. It integrates environmental, social and governance issues into its investment and risk management processes. This can lead to portfolio adjustments and decisions to divest from, or to not buy specific securities.<sup>171</sup>

### Activities and engagement

In its responsible investment report for 2016 published in March 2017, NBIM wrote that in 2016 it had conducted an additional in-depth analysis of the palm oil sector, participated in an investor trip to Indonesia, and updated its criteria from 2012 to reflect developments in the sector. Its findings indicated that while there had been improvements in individual companies' practices and regulation to encourage sustainability, the industry as a whole still faces significant challenges. According to NBIM, one such challenge relates to traceability and sustainability certification in supply chains. Another is the expansion of some palm oil producers into parts of Africa where governance, land ownership and human rights issues are key concerns. As a result of its analysis of the sector and assessments of individual companies, NBIM decided to maintain its divestments from palm oil companies and revisit them again next year.<sup>172</sup>

NBIM's expectations with regard to environmental, social and governance issues apply to all companies, including financial institutions. The banks covered in this report do have a relevant business mix allocated to palm oil production, and GPFG is still investing in the main banks financing Indonesian palm oil. So far, NBIM has not explained its position on these banks or its engagement on palm oil finance publicly. It is unclear, for example, whether these banks were part of NBIM's in-depth analysis of the palm oil sector in 2016.

NBIM replied to the questionnaire it was sent for this report, but did not answer its questions. In line with its general practice, NBIM did not want to comment on the fund's investments in and views on individual companies. It referred to the list of holdings it publishes every year on its website and to its 2016 report on responsible investment, while reiterating that the Fund's principles for responsible business apply to all of its investments.<sup>173</sup>

## 5.3 Nordea

### Introduction

Nordea is the second largest Nordic asset manager. At the end of 2016, the company had EUR 322.7 billion (equivalent to USD 340 billion) of assets under management. Nordea is active throughout the Nordic countries (Denmark, Finland, Norway and Sweden) and has private banking offices in Luxembourg, Zürich and Singapore.<sup>174</sup>

### Direct shareholdings in the Southeast Asian banks

In response to the questionnaire for this report, Nordea reported that on 5 April 2017 it had holdings totalling EUR 243.6 billion (equivalent to USD 260 million) in BRI, BNI, DBS and OCBC. Nordea stated it was no longer a shareholder of Bank Mandiri, and had no holdings in BCA.

Though Nordea did not specify its holdings in each of the four banks, according to data collected for this report, on 31 December 2016 Nordea had holdings worth USD 90 million in BRI, USD 54 million in DBS, USD 49 million in BNI, USD 48 million in Bank Mandiri, and USD 15 million in OCBC.<sup>175</sup> These figures (excluding the divested Mandiri) were extrapolated for this report to come to a total of USD 260 million on 5 April 2017.

Nordea is the largest Nordic shareholder in BRI and BNI, and is among the world's top ten largest private shareholders in the two banks.<sup>176</sup>

On 31 December 2016, two banks were listed in a Nordea ethical fund. These were Nordea Stabile Aksjer Global Etisk with investments in OCBC totalling USD 1.8 million,<sup>177</sup> and Nordea 2 - Emerging Markets Aksjer Etisk with investments in BRI totalling USD 0.4 million.<sup>178</sup>

**Table 7. Nordea's estimated direct shareholdings in the Southeast Asian banks on 05/04/2017 (USD million)**

	Total	DBS	OCBC	BRI	Mandiri	BCA	BNI
Nordea	260	67	19	113	0	0	61

Nordea has only a few direct shareholdings in palm oil companies. A striking thing, however, is that one fund (Nordea Globala Tillväxtmarknader/Nordea Tillväxtregion Aktie) contains holdings in PT PP London Sumatra Indonesia worth USD 1.5 million and Sampoerna Agro worth USD 0.9 million.<sup>179</sup> Both of these companies are mentioned in cases discussed in this report.

**Photo. Burnt trees inside a concession of PT PP London Sumatra in East Kalimantan**



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

## Investment policy relevant to palm oil

The 2016 assessment for the Fair Finance Guides of Sweden and Norway suggests there is room for improvement in Nordea's investment policy relevant to palm oil. The company currently has no policy on the conservation of High Carbon Stock forests and peatlands. Moreover, the assessment says Nordea's policy is "partly" relevant to the conservation of High Conservation Value (HCV) areas and the concept of Free, Prior and Informed Consent (FPIC) for indigenous and other local communities.

Replying to the questionnaire, Nordea stated it expects the banks it invests in to handle their financial activities in a responsible and sustainable manner. Nordea checks this in its investment process and its norm-based screening process. It includes environmental, social and governance (ESG) data as part of the investment process for all actively managed funds. Nordea's fund managers have access to company-level ESG analyses from the service provider MSCI. MSCI's ESG analyses are based on how companies are managing their most important ESG risks. Sustainability criteria with regard to lending, along with other important ESG risks for the bank, form part of these analyses.<sup>180</sup> Nordea also applies its own ESG analysis to its Stars funds, which includes a dialogue on ESG issues with each company. To be able to invest in Stars funds companies need to address material ESG issues in a proactive way.<sup>181</sup> Bank Mandiri was part of such a Stars fund (see Box 1 below).

Nordea, assisted by ISS-Ethix, also conducts norm-based screening for all its actively managed funds. This norm-based screening will alert Nordea to breaches of international norms, such as environmental, social and business ethics issues, by companies it invests in. Screening covers financial activities such as project financing and broader topics such as corruption.

## Activities and engagement

In response to the questionnaire, Nordea stated it knew banks in Southeast Asia and especially in Indonesia have some exposure to the palm oil industry as a part of their agriculture sector loans. The company has also made two trips, in 2011 and 2017, to the Southeast Asian region to look specifically at palm oil, and met with different stakeholders within the industry. During its trip in 2017, it identified some key barriers to the development of sustainable palm oil, one of them being responsible lending practices among the banks in the region. Nordea referred to the WWF report published in May 2015, which concluded that local banks generally lack responsible lending practices.<sup>182</sup> Since its last trip, Nordea has been discussing participation in stakeholder workshops initiated by WWF on responsible lending practices for banks in relation to palm oil producers.

In response to the question of whether it would be interested in participating in a collaborative initiative to approach the banks, Nordea stated it would, but requested more information about the initiative before agreeing to collaborate. Nordea supports the idea of such an initiative after its findings from dialogues with banks in the region, its recent trip in 2017 and the report from WWF.

#### BOX 1: Bank Mandiri no longer in the Nordea Stars fund

Nordea was once a large shareholder in Bank Mandiri. On 30 September 2016, it still owned a 0.4% stake in the bank equivalent to USD 75 million.<sup>183</sup> In the last half of 2016, however, Nordea's holdings in Bank Mandiri decreased, while its holdings in BRI increased by a similar order of magnitude.<sup>184</sup> In April 2017, in its response to the questionnaire Nordea said it no longer had any shareholdings in Bank Mandiri. It did not disclose the reason behind its decision to drop the bank.

In its responsible investments report for 2015, Nordea elaborated on a visit to Bank Mandiri in November 2015. A major topic of conversation was the cyber security aspects of the bank. Bank Mandiri assured Nordea it works extensively on standardising its systems and building its internal technology and security capabilities. With regard to social issues, Nordea noted Bank Mandiri had consistently increased the share of micro lending as part of its total loan book. As a concluding remark, Nordea said "the bank still has some work to do in terms of the social aspects of the rest of the loan book and responsible lending."<sup>185</sup> In its response to the questionnaire Nordea also mentioned the 2015 visit saying, "We've had a dialogue with Mandiri Bank on ESG issues in 2015, since they were a holding in the Emerging Stars Fund. We did recognize that they lack environmental and social practices in their lending operations and we have proposed them to develop their practices. Since Bank Mandiri is no longer a holding in Nordea Emerging Stars, we have no scheduled follow-up meeting with the company."<sup>186</sup> Oil palm investments had not been a main topic during the meeting between Nordea and Bank Mandiri in 2015.

## 5.4 AP-fonderna

### Introduction

AP-fonderna comprises six Swedish public pension funds: AP1, AP2, AP3, AP4, AP6 and AP7.<sup>187</sup> AP6 invests in unlisted companies only, and not in Asian companies. Total assets under AP-fonderna management amounted to SEK 1,665 billion (equivalent to USD 183 billion) at the end of 2016.<sup>188</sup>

### Direct shareholdings in the Southeast Asian banks

The table below shows AP-fonderna's direct shareholdings in the six Southeast Asian banks. AP-fonderna funds are the second largest Nordic shareholders in Bank Mandiri, OCBC and BCA.

**Table 8. AP-fonderna direct shareholdings in the Southeast Asian banks on 31/12/2016 (USD million)**

	Total	DBS	OCBC	BRI	Mandiri	BCA	BNI
AP1, 2, 3 and 4	94	25	34	2	14	14	5
AP7	69	20	17	9	7	13	3
<b>Total AP-fonderna</b>	<b>163</b>	<b>45</b>	<b>51</b>	<b>11</b>	<b>21</b>	<b>27</b>	<b>8</b>

At present, AP-fonderna portfolios still contain some direct shareholdings in palm oil companies. Most, but not all of these companies have NDPE policies. It is striking to see GPF's 2015 exclusions of Genting, POSCO/Daewoo and IJM Corporation, none of which have NDPE policies, have not been followed by the first four APs. At the end 2016, the first four APs' holdings in POSCO/Daewoo amounted to USD 20 million (see Box 2 below) and USD 8 million in Genting.<sup>189</sup>

### Investment policy relevant to palm oil

There is a joint Ethical Council for the first four APs, which coordinates and exerts influence on companies in order to improve their efforts in relation to environmental and social issues. AP7 has its own responsible investing policy.<sup>190</sup>

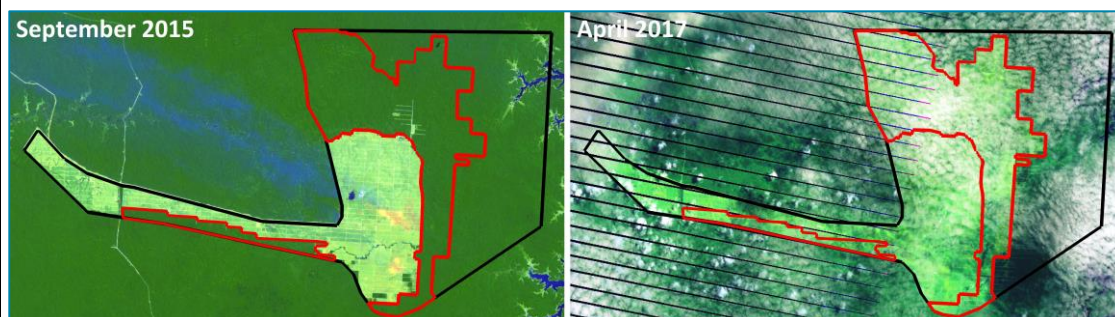
When it comes to excluding companies, AP7 acts more rapidly and thoroughly than the Ethical Council does. Its list of excluded companies is longer, and contains names such as: Royal Dutch Shell, over oil pollution in Nigeria; BP, over its oil spill disaster in the Gulf of Mexico; and POSCO/Daewoo, over its violation of human rights in connection with cotton production in Uzbekistan.<sup>191</sup>

In 2014, the Ethical Council introduced a four-year deadline for reactive dialogues with companies, during which convention violations shall be verified by external experts. If the objective of a dialogue is not achieved within four years, the Ethical Council will recommend the four AP funds divest their holdings in the company concerned.<sup>192</sup> This long engagement period may explain the slow pace of AP1-4 in excluding companies.

#### BOX 2: AP1 and AP2 still investing in POSCO/Daewoo

On 31 December 2016, AP2 (USD 17 million) and AP1 (USD 3 million) still had shareholdings in the Korean company POSCO/Daewoo.<sup>193</sup> In its annual report for 2015 published in April 2016, the AP Fonden Ethical Council wrote, “Daewoo’s subsidiary PT Bio Inti Agrindo (PT BIA) has also been accused of planning oil palm plantations in a biologically unique rain forest area in Indonesia. Daewoo is planning to conduct a sustainability analysis of the project, and the Ethical Council is awaiting its results.”<sup>194</sup> By August 2015, POSCO/Daewoo had already been excluded from the GPFG after a recommendation from GPFG’s Council on Ethics. Maps from the Indonesian Ministry of Forestry show 15,800 ha, or almost half of Daewoo’s entire concession area in Papua, covered with primary forest. That’s.<sup>195</sup> Recent satellite imagery shows Daewoo continuing to clear forest steadily in 2016 and 2017. Between September 2015 and April 2017, Daewoo had cleared around 9,900 ha of forest, some of which was primary forest. Figure 15 below shows the concession boundary (marked in grey) and land clearing (marked in red). Imagery from April 2017 shows plantation blocks already marked out for further clearing.

Figure 15. Forest clearing by Daewoo’s PT BIA between September 2015 and April 2017



#### Activities and engagement

In response to the questionnaire for this report, the Ethical Council wrote that it had engaged with numerous companies regarding palm oil over a period of many years, and primarily through a collaborative Principles for Responsible Investments (PRI) project. A representative from the Council visited Indonesia in 2016 and met with large- and small-scale palm oil producers and plantations, as well as related stakeholders. Meetings with the six banks did not form part of this engagement. The Council’s general view was that, although not perfect, large listed companies are increasingly trying to address sustainability issues connected to their businesses in a better way. Its trip to Indonesia showed the Council that part of the challenge lies in getting non-listed producers and farmers to work under a similar framework. In this context, the Council said it would be happy to look at any proposal to strengthen the six banks’ sustainability considerations.<sup>196</sup>

In response to the questionnaire for this report, AP7 wrote it had had reports of BRI and BRI being associated with lending to companies involved in the palm oil sector. However, according to AP7’s analysis there was no verified information showing these companies had acted in breach of

international norms. AP7 also said it might be interested in participating in a collaborative initiative to approach the banks, depending on the details of the project and how well it would fit with AP7's other ESG activities.<sup>197</sup>

## 5.5 Swedbank

### Introduction

Swedbank is Sweden's largest bank, and claims to be the country's leading fund manager with a market share of 21%. Its fund management activities also have large market shares in the Baltic countries (Estonia, Latvia and Lithuania). Swedbank's assets under management amounted to SEK 1,170 billion (equivalent to USD 129 billion) on 31 December 2016. Of this amount, funds under management amounted to SEK 789 billion. Swedbank Robur, a full subsidiary of Swedbank, is the bank's fund and asset management company.<sup>198</sup>

### Direct shareholdings in the Southeast Asian banks

In response to the questionnaire for this report, Swedbank said it had identified no errors in the direct shareholdings listed below. Swedbank is the second largest Nordic shareholder of DBS.

Two banks were included in an ethical fund on 31 December 2016. The KPA Etisk Blandfond fund had two investments; one of USD 0.7 million in DBS and another of USD 0.3 million in OCBC.<sup>199</sup>

**Table 9. Swedbank direct shareholdings in the Southeast Asian banks on 31/12/2016 (USD million)**

	Total	DBS	OCBC	BRI	Mandiri	BCA	BNI
Swedbank	140	112	4	12	5	6	1

At present, Swedbank's portfolio still contains some direct shareholdings in palm oil companies. Most, but not all of these companies have NDPE policies. It is striking to see GPF's 2015 exclusions of Genting, POSCO/Daewoo and IJM Corporation, none of which have NDPE policies, have not been followed by Swedbank. At the end 2016, Swedbank holdings amounted to USD 8 million in POSCO/Daewoo and USD 3 million in Genting. Swedbank also has a USD 0.5 million holding in Sampoerna Agro, which is mentioned in one of the cases discussed in this report.<sup>200</sup>

### Investment policy relevant to palm oil

The 2016 assessment for the Fair Finance Guides of Sweden and Norway suggests there is room for improvement in Swedbank's investment policy relevant to palm oil. The company currently has no policy on the conservation of High Carbon Stock forests and peatlands. Moreover, the assessment says Swedbank's policy is "partly" relevant to the conservation of High Conservation Value (HCV) areas and the concept of Free, Prior and Informed Consent (FPIC) for indigenous and other local communities.<sup>201</sup>

In response to the questionnaire for this report, Swedbank stated that the board of Swedbank Robur had recently updated its Policy for Responsible Investments which applies to its total fund offering and investments in companies in all sectors, including banking.<sup>202</sup> The key commitments of the policy are to:

- Integrate environmental, social and governance (ESG) issues into investment processes;
- Engage with companies to persuade them to improve their ESG performance;
- Exclude companies that produce nuclear weapons, cluster munitions, land mines, chemical and biological weapons, coal (> 30 % revenue) and pornography; and



- Aspire to invest in companies which comply with international ESG norms and conventions established by the UN, ILO and OECD and exercise influence over those that are systematically non-compliant.<sup>203</sup>

### Activities and engagement

In response to the questionnaire for this report, Swedbank said it had not engaged with the six banks on the issue of palm oil, and was unaware of the extent of their involvement in financing palm oil operations. Swedbank said that when dealing with the banking sector it seeks institutions that have robust systems for assessing and minimising the environmental impacts of project financing. All six banks had been monitored in light of its norms and by ratings service providers, one of which had engaged with OCBC and DBS on their operations in Myanmar and their sustainability management systems in general.<sup>204</sup>

In recent years Swedbank has undertaken a field visit to Borneo and conducted goal-based engagement with most of the major palm oil producers, buyers, product retailers (both RSPO and non-RSPO members) and financier banks; a list of over 90 listed companies according to Swedbank.

In February 2016, Swedbank Robur commenced engagement specifically on palm oil financing with Barclays, Credit Suisse, Deutsche Bank, HSBC, JP Morgan Chase, Morgan Stanley, Rabobank, Standard Chartered and UBS through a collaborative project with a group of PRI investors. The project is ongoing.

Swedbank characterised palm oil production as a very important social and environmental risk and responsible investment area. So far, it has focused primarily on analysis and engagement with companies involved in the palm oil production, refining, trading, food production and retail sales links of the value chain. As there is room for improvement for many companies involved in these stages, it is continuing to engage with them.<sup>205</sup>

In response to the questionnaire for this report, Swedbank stated that potentially it was open to further engagement with the banks targeted in the questionnaire provided that the information is credible, and the planned dialogue aligns with Swedbank Robur’s engagement system and goals and with its responsible investment policy.

## 5.6 Handelsbanken

### Introduction

Svenska Handelsbanken AB is one of the Sweden’s major banks. Its second largest banking operations are in the United Kingdom. On 31 December 2016, Handelsbanken’s assets under management amounted to SEK 542 billion (equivalent to USD 60 billion).<sup>206</sup>

### Direct shareholdings in the Southeast Asian banks

At the end of 2016, Handelsbanken held direct shareholdings worth USD 66 million in the six Southeast Asian banks, most of them in BRI. Handelsbanken is the third largest Nordic shareholder in BRI.

**Table 10. Direct shareholdings Handelsbanken in the Southeast Asian banks (USD million; 31/12/2016)**

	Total	DBS	OCBC	BRI	Mandiri	BCA	BNI
Handelsbanken	66	9	8	42	1	6	0

Handelsbanken has almost no direct shareholdings in palm oil companies.<sup>207</sup>

### Investment policy relevant to palm oil

The 2016 assessment for the Fair Finance Guides of Sweden and Norway suggests there is room for improvement in Handelsbanken’s investment policy relevant to palm oil. The company currently has no policy on the conservation of High Carbon Stock forests and peatlands. Moreover, the assessment says Handelsbanken’s policy is “partly” relevant to the conservation of High Conservation Value (HCV) areas and the concept of Free, Prior and Informed Consent (FPIC) for indigenous and other local communities.

In response to the questionnaire Handelsbanken said its norm-based screening also included the financing operations of banks. This screening can be focused on the location/design of a project (for example the Occupied Arab Territories or UNESCO-sites) or on a project’s processes. However, it also said it had no criteria specific to palm oil financing. Handelsbanken stated it had looked at BRI through its integrated ESG approach, and referred to a statement BRI made about only financing RSPO certified palm oil.<sup>208</sup> This is erroneous, as shown by this report’s section on BRI’s policies.

### Activities and engagement

Handelsbanken said it was aware of the potential for banks in the Southeast Asian region to have high exposure to environmental risks in their lending. It had received reports from one of its service providers on controversies relating to the two Singaporean banks and their financing of palm oil.

Handelsbanken also answered that, in line with Principles of Responsible Investment (PRI) definitions, it had not been involved in dialogue with any of the banks. According to Handelsbanken, the PRI engagement initiative on palm oil, which it supports, does not include banks. Handelsbanken said it would potentially be interested in participating in a collaborative initiative to approach these banks.<sup>209</sup>

## 5.7 KLP

### Introduction

KLP (*Kommunal Landspensjonkasse*) is responsible for managing municipal and county pensions in Norway, and is Norway's largest life insurance company. KLP Kapitalforvaltning AS is KLP’s securities and fund management unit. It was managing assets worth NOK 442 billion (equivalent to USD 51 billion) at the end of 2016.<sup>210</sup>

### Direct shareholdings in the Southeast Asian banks

At the end of 2016, KLP held USD 33 million of direct shareholdings in the six Southeast Asian banks, mostly in the two Singaporean banks.

**Table 11. KLP direct shareholdings in the Southeast Asian banks on 31/12/2016 (USD million)**

	Total	DBS	OCBC	BRI	Mandiri	BCA	BNI
KLP	33	13	12	2	2	3	1

At present, KLP’s portfolio still has some direct shareholdings in palm oil companies.<sup>211</sup> Almost all of these companies have NDPE policies. KLP has excluded some palm oil companies from its investment portfolio, most recently Genting, IJM Corporation, Noble and POSCO/Daewoo (though exclusion of the latter was linked to human rights violations in connection with cotton production of in Uzbekistan).<sup>212</sup>

### Investment policy relevant to palm oil

The 2016 assessment for the Fair Finance Guides of Sweden and Norway suggests KLP is one of the few Nordic asset managers whose policy is already reasonably well aligned with the No Deforestation, No Peat, No Exploitation (NDPE) policies common in the palm oil market place. Firstly, it wants to conserve peatlands, High Carbon Stock (HCS) and High Conservation Value (HCV) areas; secondly, it recognizes the right of local communities to give or withhold their Free, Prior and Informed Consent (FPIC) to any new developments; and thirdly, it requires companies respect all human rights as described in the United Nations Guiding Principles on Business and Human Rights. Unlike most Nordic asset managers, KLP does not have a clearly expressed requirement that companies should have human rights due diligence processes to address their impacts, and have processes to enable the remediation of any adverse human rights impacts they may cause or contribute to.

### Activities and engagement

In response to the questionnaire for this report, KLP said its service provider Sustainalytics had analysed the Indonesian banks, and ranked them as average performers for the banking industry. They were all ranked as laggard performers on environment indicators with the lowest possible performance rating, with the exception of BNI, which was ranked average.<sup>213</sup> The cases discussed in this report, however, show BNI does not deserve this average ranking, as it frequently lends to palm oil companies whose practices contribute to climate change, and are detrimental to biodiversity and human rights.

In its response, KLP also said it was concerned about issues relating to palm oil production, particularly deforestation. Its engagements have focused on palm oil producers and buyers, and KLP participated in an UNPRI-led trip to Indonesia and Singapore to engage with palm oil producers and other stakeholders in the industry. KLP is also involved in an ongoing Palm Oil Producers Engagement facilitated by its screening and engagement service provider GES, which includes the largest palm oil buyers, such as Unilever, Procter & Gamble, Bunge etc.

## 5.8 Storebrand

### Introduction

Storebrand is a major player in the Nordic market for long-term savings and insurance. The group is mainly active in Norway and Sweden (in Sweden through its subsidiary SPP). Its assets under management amounted to NOK 577 billion (equivalent to USD 67 billion) at the end of 2016.<sup>214</sup>

### Direct shareholdings in the Southeast Asian banks

Storebrand's direct shareholdings in the six banks amount to USD 30 million, almost equally divided over the six banks. In response to the questionnaire sent for this report, Storebrand said it could not find one holding in a bank in the list of funds it had been sent. The list of funds sent to Storebrand comprised 27 holdings in the six banks on 30 June 2016, 30 September 2016 or 28 February 2017.

Four banks were listed in an ethical fund on 30 September 2016. The four banks listed in SPP's Emerging Markets SRI (Socially Responsible Investment) fund were BCA at USD 3.7 million, BRI at USD 3.0 million, Bank Mandiri at USD 2.3 million and BNI at USD 1.3 million.<sup>215</sup>

**Table 12. Storebrand direct shareholdings in the Southeast Asian banks in 2016/2017 (USD million)**

	Total	DBS	OCBC	BRI	Mandiri	BCA	BNI
Storebrand	30	5	6	5	5	6	3

Storebrand said it had excluded 13 companies for unacceptable practices, including parent companies with more than 50% shares in palm oil companies. Storebrand’s exclusion list does contain numerous palm oil companies,<sup>216</sup> and no substantial holdings in companies involved in palm oil could be found in its funds.

### Investment policy relevant to palm oil

The 2016 assessment for the Fair Finance Guides of Sweden and Norway suggests Storebrand is the only Nordic asset manager whose policy is fully aligned with the No Deforestation, No Peat, No Exploitation (NDPE) policies common in the palm oil market place. Firstly, it wants to conserve peatlands, High Carbon Stock (HCS) and High Conservation Value (HCV) areas; secondly, it recognizes the right of local communities to give or withhold their Free, Prior and Informed Consent (FPIC) to any new developments; and thirdly, it opposes violations of human rights, 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.

In its response to the questionnaire, Storebrand noted that the financial sector has to follow the same minimum standards it applies to all sectors, and comply with its human rights and environmental standards, which are based on international conventions and norms. In addition, it assesses financial sector operators via its sustainability analysis where companies are rated depending on how well they meet human rights and environmental criteria among others. Storebrand considers these ratings when making financial decisions about banks or financial institutions.<sup>217</sup>

### Activities and engagement

In response to the questionnaire, Storebrand said it was unaware the six banks were large financiers of palm oil development. It was not even sure whether it had managed to identify all plantation owners, as none of its data providers offer this kind of information, nor had it found other sources with complete data sets.

In its thematic approach to challenges in the oil palm estate industry it had focused on plantation owners, which, according to Storebrand, had worked quite well. Whilst still an important issue, in Storebrand’s opinion financing through banks is too far removed from the serious problems on the ground to prioritise it in its engagement initiatives as a single investor. Nevertheless, Storebrand also said if it were to receive an invitation to such a collaborative initiative to approach the six banks, it would certainly consider participating.<sup>218</sup>

## 5.9 Länsförsäkringar

### Introduction

Länsförsäkringar is a Swedish financial institution wholly owned by 23 customer-owned regional insurance companies. The company has 3.7 million customers in Sweden. Its parent company is called Länsförsäkringar AB, and its subsidiary Länsförsäkringar Fondförvaltning had assets under management totalling SEK 138 billion (equivalent to USD 15 billion) at the end of 2016.<sup>219</sup>

### Direct shareholdings in the Southeast Asian banks

Länsförsäkringar's direct shareholdings in the six banks amounted to USD 24 million on 30 September 2016. In its response to the questionnaire sent for this report<sup>220</sup>, Länsförsäkringar (LF) said it had outsourced the management of all of these funds.

**Table 13. Länsförsäkringar direct shareholdings in the Southeast Asian banks on 30/09/2016 (USD million)**

	Total	DBS	OCBC	BRI	Mandiri	BCA	BNI
Länsförsäkringar	24	9	3	0	0	12	0

### Investment policy relevant to palm oil

The 2016 assessment for the Fair Finance Guides of Sweden and Norway suggests there is room for improvement in LF's investment policy relevant to palm oil. The company currently has no policy on the conservation of High Carbon Stock forests and peatlands. Moreover, the assessment says LF's policy is "partly" relevant to the conservation of High Conservation Value (HCV) areas and the concept of Free, Prior and Informed Consent (FPIC) for indigenous and other local communities.

According to its response, LF screens all holdings, and applies exclusion criteria based on compliance with international norms for human rights, controversial weapons and the environment. LF engages with companies where violations of international norms are verified or where there are indications of violations. It has had no engagement on its own with the six Southeast Asian banks, as none of them have been red flagged for ethical breaches.

### Activities and engagement

Two of its direct shareholdings are in actively managed funds: BCA in LF Tillväxtmarknad Aktiv and DBS in LF Asienfond. These two funds, managed by two different investment managers, are also LF's biggest holdings, with USD 11 million and USD 7 million invested respectively. LF stated that in the case of actively managed funds, different managers use different strategies to integrate ESG into their investment decisions. Screening follows the same method for passively managed funds (its remaining direct shareholdings).

The manager of LF Tillväxtmarknad Aktiv uses a Risk Profile analysis; a nearly 100-question survey completed for every company with the primary goal of identifying key risks associated with their business. Approximately three quarters of the questions focus on ESG issues. The manager acknowledged that BCA could have some exposure to the palm oil industry, while also stating that BCA is known to be quite conservative in terms of its asset profile, risk appetite and risk management.

The manager of LF Asienfond bases its sustainability analysis on data from an external ESG research provider and on information from the bank. If high risk loans (defined as: borrowers exposed to significant environmental risks) are a large proportion of the total loan book, this is a red flag and will require further investigation. The manager of LF Asienfond was aware that DBS has in the past lent to palm oil companies such as Tiga Pilar Sejahtera Food and Bumitama Agri, and that the total exposure of palm oil development as a percentage of the loan book was around 1%. DBS was assessed by the external research provider as having a moderate level of sustainability risk.

## 5.10 Skandia

### Introduction

Skandia is one of the largest Swedish life insurance companies, and has two million customers in Sweden and Denmark. Skandia's asset under management amounted to SEK 607 billion (equivalent to USD 67 billion) on 31 December 2016.<sup>221</sup> Skandia's full subsidiary Skandia Fonder AB manages its assets under management.

### Direct shareholdings in the Southeast Asian banks

At the end of 2016, Skandia had holdings worth USD 14 million in the six banks. Most of these holdings were in Bank Central Asia (BCA) via its prominent position in Skandia's Asienfond.<sup>222</sup>

**Table 14. Skandia direct shareholdings in the Southeast Asian banks on 31/12/2016 (USD million)**

	Total	DBS	OCBC	BRI	Mandiri	BCA	BNI
Skandia	15	2	2	1	0	10	0

### Investment policy relevant to palm oil

The 2016 assessment for the Fair Finance Guides of Sweden and Norway suggests there is room for improvement in Skandia's investment policy relevant to palm oil. The company currently has no policy on the conservation of High Carbon Stock forests and peatlands. Moreover, the assessment says Skandia's policy is "partly" relevant to the conservation of High Conservation Value (HCV) areas and the concept of Free, Prior and Informed Consent (FPIC) for indigenous and other local communities.

In response to the questionnaire, Skandia stated that Skandia Fonder applies no specific or explicit criteria when investing in the financial sector. However, it does expect all companies it invests in to act in accordance with international norms, such as the UN Global Compact. If a company is alleged to violate international norms then Skandia will initiate an engagement process. If the company fails to address the issue in a credible manner then Skandia will consider divesting from the company.<sup>223</sup>

### Activities and engagement

Skandia said it was aware the banks it invests in are financing palm oil development, and that they lag behind their international peers in terms of ESG-related disclosures. However, according to Skandia, these banks have committed to improving their policies and due diligence to varying degrees. It said BCA and Bank Mandiri are actively trying to improve, and in regard to palm oil they are partnering WWF Indonesia in developing sustainable financing criteria for integration into the palm oil industry. Furthermore, it said last year Bank Mandiri had decided not to extend new loans for oil palm plantations on peatlands and does not provide financing for green field projects. The bank will also be strict in only providing financing for oil palm plantations on land which has already secured a right to cultivate (HGU) permit.

Skandia's own personnel had not engaged with any of the four banks mentioned. However, Skandia Tillväxtmarknadsfond is externally managed and the portfolio manager has been meeting and engaging with Bank Mandiri for a number of years. The last call to the bank addressing its lending practices to the palm oil industry was in Q1 2017. One recommendation it put forward was for Bank Mandiri to improve transparency in its palm oil lending practices.

Skandia Fonder has a large number of holdings and finds prioritization of engagement activities necessary. When prioritizing companies for engagement, it takes into account the severity or significance of adverse impacts, the importance of the investee company to Skandia and potential limitations on leverage over the company. Skandia noted that this approach is in line with OECD considerations for institutional investors.<sup>224</sup> Skandia had yet to identify any of the four banks addressed in this report as being of priorities for engagement.

Skandia Fonder said it would potentially be interested in participating in a collaborative initiative to approach the banks, but would make a final decision once the scope of engagement had been outlined.<sup>225</sup>

## 5.11 Danske Bank

### Introduction

Danske Bank is Denmark’s largest financial enterprise. On 31 December 2016, Danske Bank had assets worth DKK 1,420 billion (equivalent to USD 202 billion) under management. These assets came under the categories: Asset Management (Danske Capital and Danica unit-linked) at DKK 848 billion; Assets under Advice where personal, business and private banking customers make investment decisions at DKK 412 billion; and its conventional life business (Danica Traditionel) at DKK 161 billion.<sup>226</sup>

### Direct shareholdings in the Southeast Asian banks

Though Danske Bank is among the largest Nordic asset managers, it has little in the way of direct shareholdings in the six main banks financing Indonesian oil palm development.

**Table 15. Danske Bank direct shareholdings in the Southeast Asian banks (USD million)**

	Total	DBS	OCBC	BRI	Mandiri	BCA	BNI
Danske Bank	10	1	6	2	0	1	0

### Investment policy relevant to palm oil

The 2016 assessment for the Fair Finance Guides of Sweden and Norway suggests Danske Bank is the Nordic asset manager whose policy is least aligned with the No Deforestation, No Peat, No Exploitation (NDPE) policies common in the palm oil market place. Firstly, it has no policy on conserving peatlands, High Carbon Stock (HCS) or High Conservation Value (HCV) areas; and secondly, it does not recognize the right of local communities to give or withhold their Free, Prior and Informed Consent (FPIC) to any new developments. However, Danske Bank does require that companies respect all human rights as described in the United Nations Guiding Principles on Business and Human Rights, have human rights due diligence processes to address their impacts, and have processes to enable the remediation of any adverse human rights impacts they may cause or contribute to.

In response to the questionnaire, Danske Bank said all its investments are screened for breaches of international norms. If a breach does occur, it sets up an engagement with the company and tries to make it change its behaviour. If an engagement is unsuccessful, its last resort is to exclude the company from its investment portfolio. All of its investments are subject to its public exclusion list. Danske Bank integrates ESG into its actively managed funds, while it monitors ESG scores for its passively managed funds. Its ESG assessments of banks also cover their lending policies and practices.<sup>227</sup>

## Activities and engagement

Danske bank said it was aware the palm oil industry has several sustainability issues. It also said all industries need financing, so it was no surprise that some banks are financing the palm oil industry. It stated that many common products contain palm oil, so a list of companies with palm oil producers as suppliers would be very long. Danske Bank had not engaged with any of the banks over the last 3 years regarding their financing of palm oil development.

Danske Bank generally engages with companies directly involved in controversial activities. Though it considers direct involvement more severe than indirect involvement, if it assesses indirect exposure as a substantial part of the revenue or the scale of involvement to be significant, then indirect involvement can also lead to engagements.

Danske Bank did not respond to the question of whether it would be interested in participating in a collaborative initiative to approach the banks.<sup>228</sup>

## 5.12 SEB

### Introduction

SEB (Skandinaviska Enskilda Banken AB) is a Swedish financial group headquartered in Stockholm. It is active in Scandinavia, the Baltic countries and Germany. Its activities comprise banking services and life insurance operations. The bank is controlled by the Swedish Wallenberg family. At the end of 2016, SEB had SEK 1,781 billion (equivalent to USD 196 billion) in assets under management. Of these assets, SEB managed funds accounted for SEK 531 billion.<sup>229</sup>

### Direct shareholdings in the Southeast Asian banks

Though SEB is among the largest Nordic asset managers, it has few direct shareholdings in the six main banks financing Indonesian oil palm development. In its response to the questionnaire, SEB confirmed the figures in Table 16 below accorded with its records.

Five of the Southeast Asian banks were included in an ethical fund, the SEB Ethical Global Index Fund, on 28 February 2017: DBS at USD 2.1 million, OCBC at USD 1.8 million, BCA at USD 1.4 million, BRI at USD 1.0 million and Bank Mandiri at USD 0.8 million).<sup>230</sup>

**Table 16. SEB direct shareholdings in the Southeast Asian banks on 28/02/2017 (USD million)**

	Total	DBS	OCBC	BRI	Mandiri	BCA	BNI
SEB	9	2	2	3	1	1	0

### Investment policy relevant to palm oil

The 2016 assessment for the Fair Finance Guides of Sweden and Norway suggests there is room for improvement in SEB's investment policy relevant to palm oil. The company currently has no policy on the conservation of High Carbon Stock forests and peatlands. Moreover, the assessment says SEB's policy is "partly" relevant to the conservation of High Conservation Value (HCV) areas and the concept of Free, Prior and Informed Consent (FPIC) for indigenous and other local communities.

In response to the questionnaire, SEB stressed that its holdings in the banks are so-called "passive investments" in index funds, which only take its exclusion criteria into account. SEB only performs



broader perspective analyses for active investments. For active investment decisions on banks, sustainability work is taken into account in the same way as, for example, profitability and credit risks.<sup>231</sup>

### Activities and engagement

Since SEB’s holdings in these banks are passive investments, and its funds had made no previous active investments, SEB said it had no detailed knowledge of and had not participated in dialogues with any of the banks in question. In regard to whether it would be interested in participating in a collaborative initiative to approach the banks, SEB said it was looking forward to seeing the design of the initiative before making any decision.

## 5.13 DNB

### Introduction

The DNB Group is a leading financial services group in Norway, with 2.1 million personal customers and 183,000 corporate customers. DNB Asset Management had assets under management totalling NOK 531 billion (equivalent to USD 62 billion) at the end of 2016.<sup>232</sup>

### Direct shareholdings in the Southeast Asian banks

DNB’s direct shareholdings in the six banks amount to USD 2 million, equally divided between the two Singaporean banks.

**Table 17. DNB direct shareholdings in the Southeast Asian banks on 20 April 2017 (USD million)**

	Total	DBS	OCBC	BRI	Mandiri	BCA	BNI
DNB	2	1	1	0	0	0	0

### Investment policy relevant to palm oil

The 2016 assessment for the Fair Finance Guides of Sweden and Norway suggests there is room for improvement in DNB’s investment policy relevant to palm oil. The company currently has no policy on the conservation of High Carbon Stock forests and peatlands. Moreover, the assessment says DNB’s policy is “partly” relevant to the conservation of High Conservation Value (HCV) areas and the concept of Free, Prior and Informed Consent (FPIC) for indigenous and other local communities. Unlike most Nordic asset managers, DNB does not clearly specify a requirement that companies should have human rights due diligence processes to address their impacts, and have processes to enable the remediation of any adverse human rights impacts they may cause or contribute to.

In its response to the questionnaire, DNB said its guidelines for ethical investments<sup>233</sup> form the basis for what it expects from companies; to not contribute to the violation of international norms or standards. These guidelines apply to all DNB’s investments, and include banks and suppliers of mutual funds in which the Group invests or offers to its customers.

DNB regularly engages in talks with companies it invests in. Its objective is to influence them into improving their practices, thereby securing long-term shareholder value and mitigating risks. Moreover, DNB looks for good sustainable business models and aims to influence companies to make that choice. Causes for its engagement are often specific concerns relating to environmental, social and governance matters.

According to DNB, it engages with banks and financial institutions with regard to corruption, money laundering, financing terrorism, financial crimes and other matters in breach of international norms, conventions and law. DNB also said at present there are no good working international norms or traditions when it comes to excluding banks based on their investment portfolios.<sup>234</sup>

### Activities and engagement

In response to the questionnaire, DNB said it had excluded some palm oil companies due to violations of human rights and indigenous people's rights, and palm oil had been a focus area due to associated environmental and social issues.

With regard to DBS and OCBC, DNB said it had holdings in the Singaporean banks through its index fund, but not in its actively managed funds, as index funds are managed passively. It also said it was aware of other controversies involving the two banks it invests in, and that the banks were under observation.

DNB also said from an investor's point of view banks and financial institutions were coming under increasing scrutiny. Banks' financing policies had not been a common topic of discussion in responsible investments three years earlier, but DNB had seen this pattern increasing since 2016.

DNB is part of the PRI Investor Working Group on Sustainable Palm Oil. The group aims to raise awareness of palm oil issues among investors, provide a unified investor voice in support of sustainable palm oil and the Roundtable on Sustainable Palm Oil (RSPO), and engage with companies in support of more sustainable practices. Through this working group, DNB has been engaging with palm oil producers and following several companies for a long period of time. In regard to palm oil production DNB uses its investor network and service providers to reach the companies in a collaborative, systematic and continuous manner.

With regard to the question on whether DNB would participate in a collaborative initiative to approach the banks, it replied that it assessed collaborative initiatives on a case-by-case basis. Any initiative would have to be relevant to its engagement policy, and to DNB as an investor. It prioritizes engagement with companies it believes it can influence, and companies or topics it has identified as being important in its role as a responsible investor.<sup>235</sup>

# Conclusion and recommendations

## Conclusion

Numerous palm oil companies have taken significant steps towards sustainable palm oil operations, and recently the Indonesian government has too. The banking sector, meanwhile, has not moved towards sustainable lending practices.

Securing finance is crucial for any oil palm development, so banks could occupy an important role in tackling the sustainability issues surrounding the palm oil sector. As things currently stand, by providing loans without sustainability requirements banks are giving a competitive advantage to companies without No Deforestation, No Peat, No Exploitation (NDPE) policies.

Six of the main banks financing Indonesian oil palm estate development – Bank Mandiri, Bank Rakyat Indonesia (BRI), Bank Negara Indonesia (BNI), Bank Central Asia (BCA) and two Singaporean banks OCBC and DBS – fall severely short on demanding sustainability as a prerequisite for approving credit proposals submitted by the palm oil sector.

While Nordic investors may be transparent and have sustainability policies in place, the same cannot be said of the Asian banks they invest in heavily. These banks are neither transparent nor accountable for the sustainability impacts of their lending activities.

This implies the Nordic investors' reputation for responsibility is misleading. While they may have divested their direct stakes in and/or may not directly disburse loans to destructive oil palm companies, their impacts on the environment and human rights remain significant as a result of their direct shareholdings in these Asian banks (USD 2 billion at the end of 2016).

So far there has been no serious engagement from asset managers around the world to enhance the sustainability of palm oil financed by these six banks. Scratching the surface at best means opportunities have yet to be seized.

Nordic asset managers have the financial leverage to start engaging with Southeast Asian banks. Doing so, in partnership with other asset managers and/or individually, could have significant sustainability benefits given the huge sustainability issues surrounding the palm oil sector.

## 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.

## Annex 1: The main banks financing Indonesian oil palm development

### Bank loans of IDX-listed companies

There are 16 oil palm growers listed on the Indonesia Stock Exchange (IDX). These growers are required to submit quarterly reports of their outstanding loans and the names of banks financing them. Aidenvironment Asia has analysed the bank loans of these 16 oil palm growers as they stood on 30 September 2016.<sup>236</sup>

These oil palm growers had outstanding loans totalling IDR 65 trillion. Table 18 below shows which banks had provided the largest outstanding loans, and how many of the 16 IDX-listed palm growers these banks had among their clients. This information provided the basis for the following banks being selected for this report: Bank Central Asia (BCA), Bank Mandiri, Bank Negara Indonesia (BNI), Oversea-Chinese Banking Corporation Limited (OCBC), Bank Rakyat Indonesia (BRI) and DBS Group Holdings.

The 16 IDX-listed oil palm growers account for more than 10% of global crude palm oil (CPO) production, while Indonesia itself accounts for 40 - 45%. This means the 16 IDX-listed oil palm growers account for between 20 and 25% of Indonesian CPO production.

The six Southeast Asian banks assessed for this report had outstanding loans of IDR 37.3 trillion with the 16 IDX-listed palm oil growers at the end of September 2016. This figure was 58% of these companies' total outstanding loans of IDR 65 trillion. The four Indonesian banks accounted for 48% of these outstanding loans, which was the basis for estimating they account for half of all bank loans for Indonesian palm oil development.<sup>237</sup>

**Table 18. Outstanding loans of the 16 IDX-listed oil palm growers per bank on 30/09/2016**

Bank	Country of main registration	Outstanding loans (IDR billion)	Loans to how many of the 16 companies?
1. Bank Central Asia	Indonesia	10,086	4
2. Bank Negara Indonesia	Indonesia	8,354	7
3. Bank Mandiri	Indonesia	6,976	8
4. Credit Suisse	Switzerland	5,499	1
5. Bank Rakyat Indonesia	Indonesia	5,414	6
6. OCBC NISP and OCBC	Singapore	3,907	4
7. China Development Bank	China	3,379	1
8. DBS Indonesia and DBS Bank	Singapore	2,601	5
9. Indonesia Eximbank	Indonesia	2,346	5
10. Sumitomo Mitsui	Japan	2,258	2
11. Rabobank	Netherlands	2,063	4
12. United Overseas Bank	Singapore	1,596	3
13. CIMB Niaga	Malaysia	1,517	4
14. Bank Pan Indonesia	Indonesia	1,495	1
15. Other	Several	7,286	15
<b>Total</b>		<b>64,777</b>	

Sources: Quarterly reports of IDX-listed companies 30/09/2016, <http://bit.ly/1zCAW6t>

## Annex 2: Questionnaire sent to Nordic investors

### Questions for your financial institution

#### The sustainability of Indonesian palm oil finance

Rainforest Foundation Norway, in collaboration with Fair Finance Guide in Sweden and Etisk Bankguide, is currently preparing a project focusing on the main banks financing Indonesian palm oil development. The project aims to improve the sustainability performance of these banks. After the launch of the report we will invite your institution to a joint initiative to engage with the six banks on this issue.

#### Background to the report

The first feature of the project will be a research report that is currently being prepared by the consultancy firm Aidenvironment. The report documents lending to Indonesian palm oil companies by the four largest Indonesian banks (Bank Mandiri, Bank Rakyat Indonesia, Bank Central Asia and Bank Negara Indonesia) and two Singaporean banks (DBS and OCBC). It also covers several on-the-ground practices by palm oil companies financed by the six Southeast Asian banks, and reviews the sustainability of their operations. Furthermore, it analyses the six banks' current responsible lending policies. The report's findings show there is plenty of room for improvement to prevent adverse climate change, biodiversity and human rights impacts.

#### Five questions posed to shareholders in these banks

Our research has identified that your institution invests in several of the banks in this study. Below are some questions regarding your views and possible actions on this issue.

1. **Please review the attached list with your institution's shareholdings in the six banks and notify us if you identify any errors.**
2. **Does your financial institution apply sustainability criteria when investing in other banks with regard to their financial activities? If so, what criteria?**
3. **Were you aware that the six banks are large financiers of palm oil development?**
4. **Have you engaged with any of these banks regarding their financing of palm oil development in the last 3 years? If so, please describe the engagement process per bank in more detail, including the duration and number of contacts, if it concerned specific palm oil companies/projects and the requirements you have put forward.**
5. **Would your institution potentially be interested in participating in a collaborative initiative to approach these banks with the objective to strengthen their sustainability considerations?**

#### Your response to the questions

We kindly ask you to return the answers to these questions **by Friday 7 April 2017**. Please answer in English. The report is due to be published in mid May 2017.

Please do not hesitate to contact us with any questions you may have. The deadline for answers is final, so we advise you to contact us as soon as possible if you require further clarification.

## Annex 3: Methodology of the research

The research mainly comprised desk research, using a variety of tools. Most information was public, some was semi-public (behind a wall of registration and/or payment needs). All used sources can be found in the References section of this report.

A wide range of NGOs was asked to comment on a draft text of the summary, conclusion and recommendations and/or the case studies on unsustainable practices. Aidenvironment had a second reader for enhancing and controlling quality.

### Information on the Nordic investors

Portfolio data of all Nordic investors' self managed funds were retrieved via the websites of the investors. All 12 Nordic asset managers covered in this report were given a short questionnaire, with a request to answer within two weeks (see annex 2). One of the questions was to review the retrieved portfolio data.

All 12 Nordic investors responded to the questionnaire. Their answers were processed and added to this report. On the Nordic investor's policies relevant to palm oil, the 2016 assessments of the Fair Finance Guides Sweden/Norway were used.

### Information on the six Southeast Asian banks

The desk research comprised reviewing all public information on the responsible lending policies of the six Southeast Asian banks (mainly screening their annual/sustainability reports and their websites), reviewing four earlier assessments conducted by NGOs and reviewing the Greenpeace/HSBC encounter of early 2017. Bank Mandiri was contacted several times to answer some questions on their policy. It did not respond to the questions.

### Case studies of unsustainable practices

The loan link between the six Southeast Asian banks and Indonesian oil palm growers could be retrieved through:

- Quarterly reports of oil palm growers listed on the Indonesia Stock Exchange (IDX);
- Thomson EIKON and Bloomberg financial databases;
- A directory of Indonesian oil palm plantations and their downstream industries;
- Public information of the banks.

The link between the oil palm growers and their unsustainable practices could be found through:

- Permit data of the Indonesian Ministry of Environment and Forestry and district governments;
- The annual reports and notary acts of oil palm growers;
- Google Earth Engine: Landsat 7 and 8 satellite imagery (8-Day Raw Composite);
- Forest cover maps Ministry of Environment and Forestry;
- Google Earth high-resolution imagery;
- Hotspots: Fire Information for Resource Management System (FIRMS);
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