

# Forests and Finance



## Key Findings

November 2016

# Introduction

In September 2016, TuK, Profundo and RAN launched the website [ForestsandFinance.org](http://ForestsandFinance.org). This website contains a searchable database of financial services received by a selection of 50 major companies directly involved in the production or primary processing of palm oil, pulp & paper, rubber and tropical timber, whose operations impact natural tropical forests in the Asia-Pacific region.

This document presents a number of charts with some of the key findings from the analysis of the data. When

analysing the data and the findings, it is important to keep in mind that it reflects only publicly available financial data: syndicated loans, underwriting and shareholding.

The dataset is therefore an underestimation, as it does not include information on financial transactions that are not public, like direct lending, nor does it include some information on some major companies that are privately held, and for which financial information is not publicly available.

# Key Findings

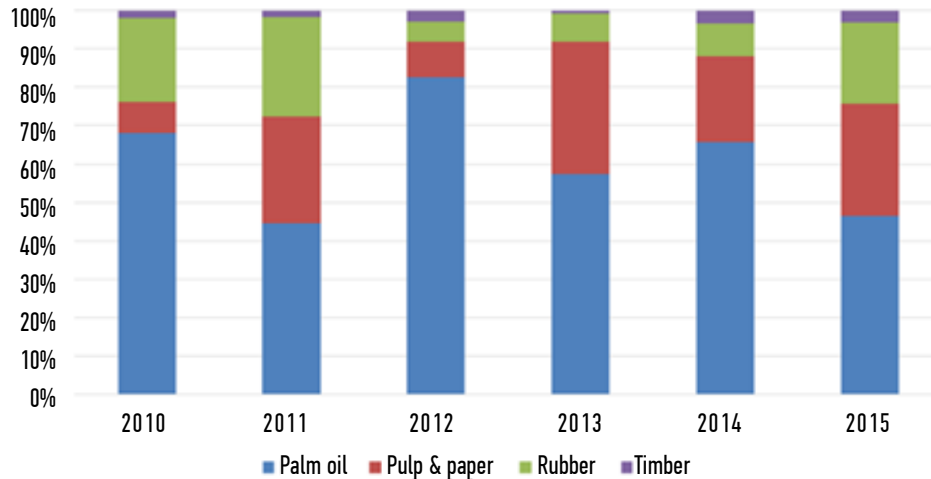
- Malaysian financial institutions are the most important investors in forest risk sector companies, in South East Asia.
- Malaysian financial institutions scored 0% on their policy assessments.
- Indonesian financial institutions play a very small role in financing the four studied sectors.
- Asian financial institutions are the main investors in the four sectors, while European and
- American banks have the best policies.
- Most of the finance goes to the palm oil sector.
- Malaysian financial institutions invested heavily in the palm oil sector, and nearly nothing in the pulp and paper sector.
- Chinese financial institutions invested heavily in the pulp and paper sector, and nearly nothing in the palm oil sector.
- Very little finance was found for the timber sector.
- Felda, Sinar Mas and Olam International are the top 3 companies that received most loans and underwriting services.

## List of the companies that were included in the scope of this study

Albukhary Group	Hoang Anh Gia Lai	Perkebunan Nusantara Group
Bakrie Group	IJM Group	Rajawali Group
Barito Pacific Group	IOI Corporation	RimbunanHijau Group
BatuKawan Group	Itochu	Royal Golden Eagle Group
Bolloré	Jardine Matheson	Salim Group
Evergreen Fibreboard	Johor Group	Samko Timber
Felda Group	Kwantas Group	Samling Group
Genting Group	Marubeni	SampoernaAgro
Gozco Group	Musim Mas	Shin Yang
Halcyon Group	NBPO Group	Sime Darby
Hap Seng Group	Oji Holdings	
Harita Group	Olam International	

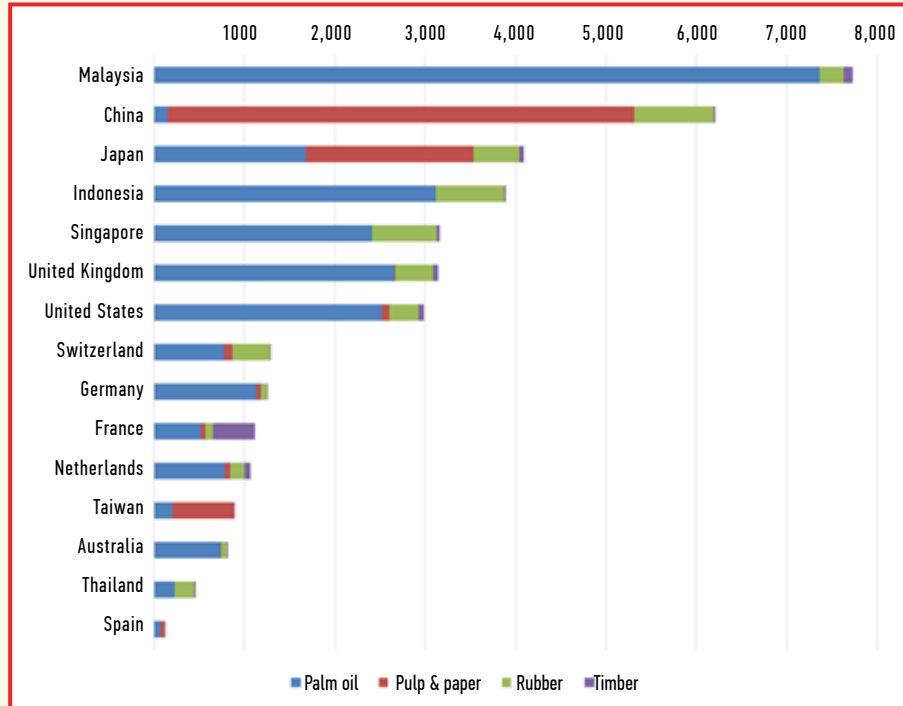
# Loans & underwriting

Data on loans and underwriting covers the period between 2010 and 2015. The total value of all loans and underwriting to the four studied sectors in this period was USD 39 billion.



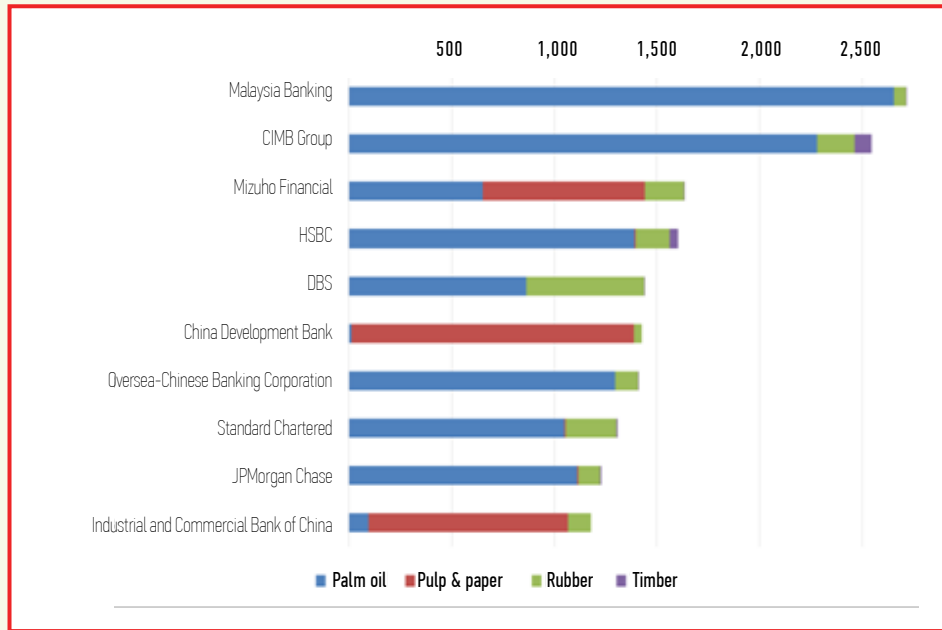
- The palm oil sector received around 60% of the total finance for loans and underwriting.
- The timber sector received the least loans and underwritings.

## Source of funding, by investor country



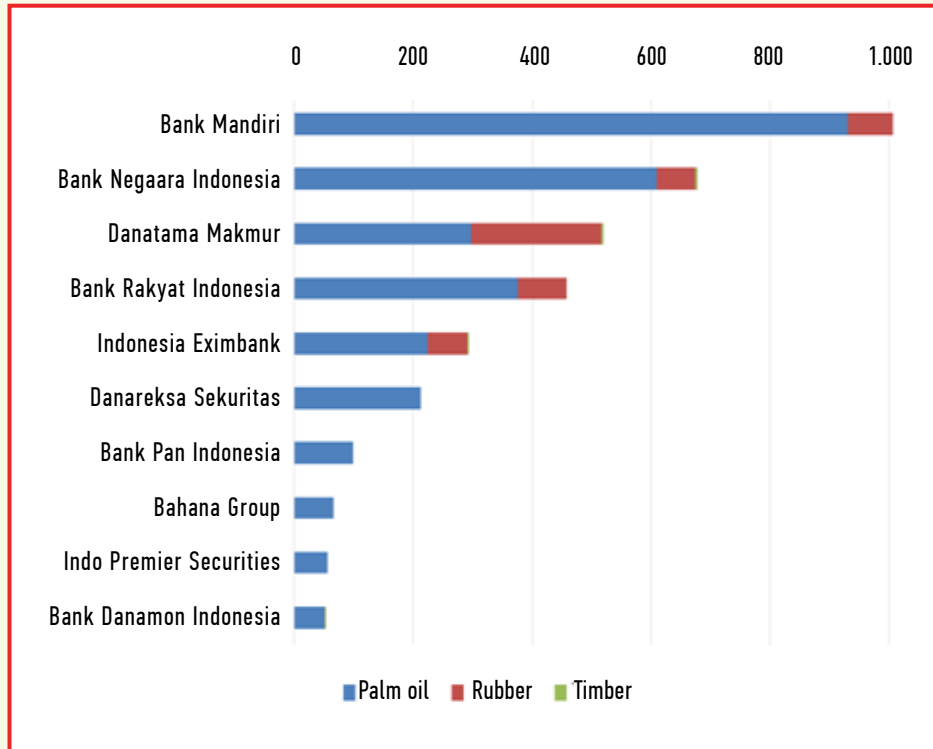
- Malaysia is the largest source of funding.
- Malaysia invested mainly in the palm oil sector. It invested more than twice as much as Indonesia, and more than all European countries together.
- China and Japan are the most important sources of funding for the pulp and paper industry.
- France is the main investor for the timber sector.

## Loans and underwriting per investor



- The two largest investors are both Malayan institutions.
- Of the top 10 investors, 7 are Asian.
- There are no Indonesian banks among the top ten financiers.

## Funding provided by Indonesian Banks



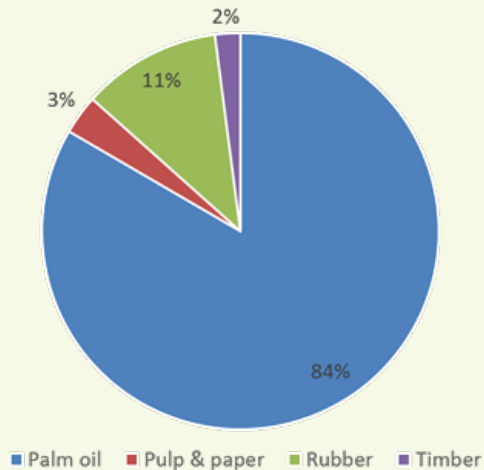
- Indonesian banks primarily finance the palm oil sector
- No transactions by Indonesian banks were found for the pulp and paper sector.
- Bank Mandiri and Bank Negara Indonesia have invested as much in palm oil as all the other Indonesian banks together.



# Bonds and Shareholding

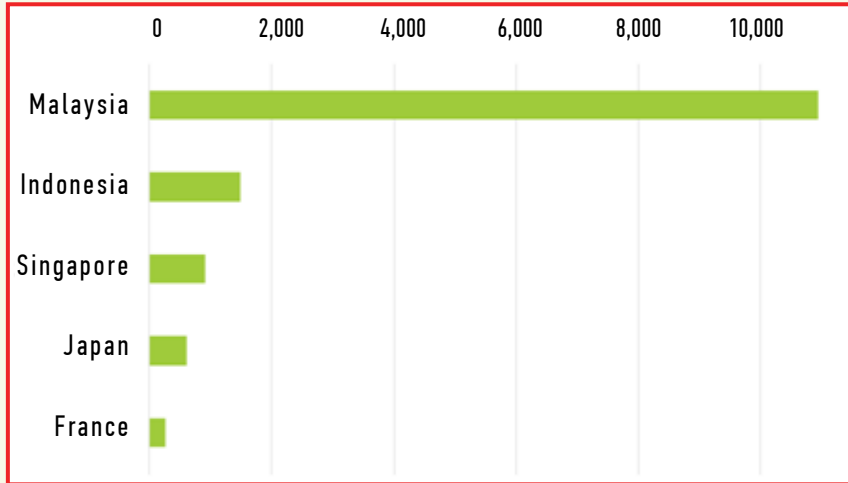
Data on bond and shareholding is from 2015 and 2016, depending on the date of the most recent filing. The total value of all bonds and shares assessed in the database is USD 14 billion.

## Bond and shareholding per sector



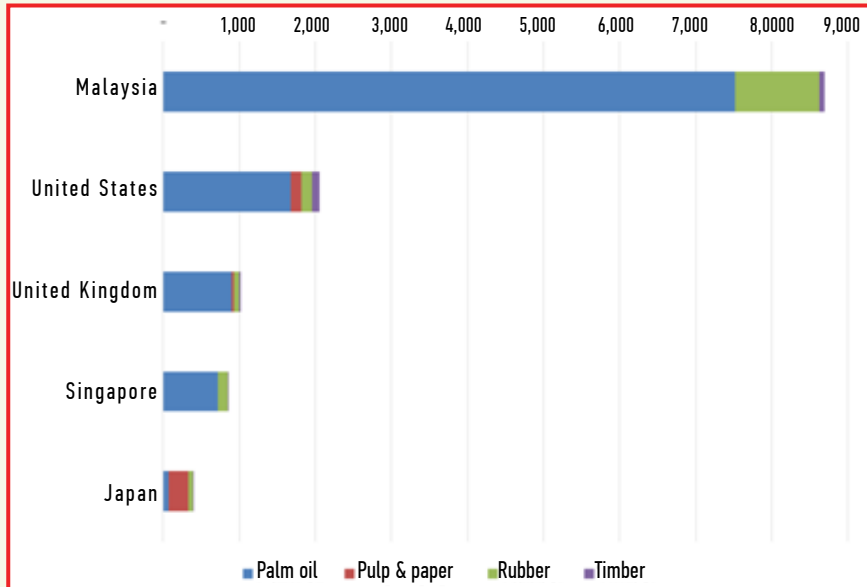
- 84% of all the bonds and shares held are in the palm oil sector.
- Bond and shareholding is relatively small for the pulp and paper sector, compared to the loans and the underwriting for this sector.

## Country of companies of which bonds and shares are held

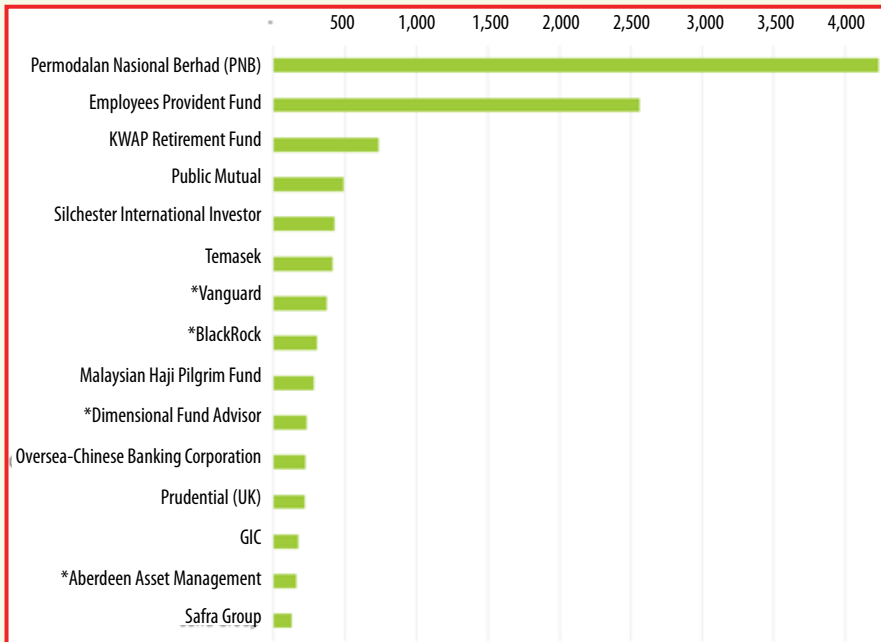


- The majority of investments are in Malaysian companies.
- 29 of 31 companies have activities in Indonesia.

## Bond and Shareholding by country of investor



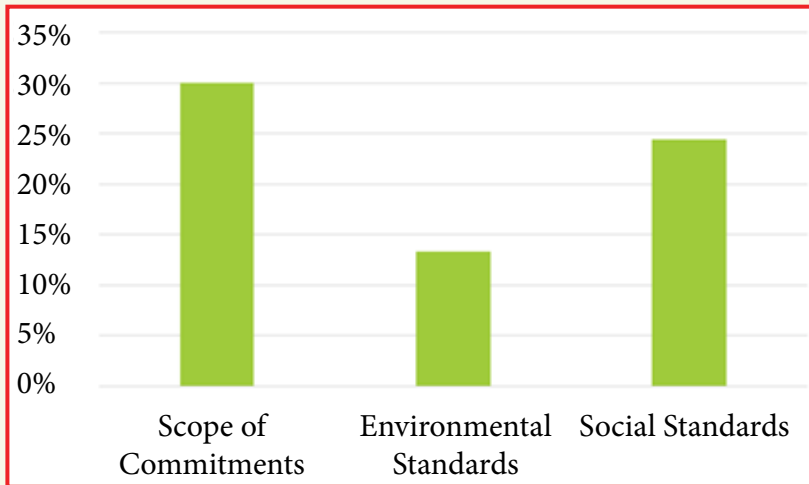
- The majority of investors are Malaysian
- While China is the second largest provider of loans and of underwriting for forest risk sectors, it has no significant role in bond and shareholding.
- Japan holds relatively many shares in pulp and paper companies.



- The four largest investors are Malaysian.
- 5 of the top 15 investors are PRI signatories

# Policy analysis

Average scoring of financial institutions on policy criteria



- Financial institutions score best on the scope of their commitments.
- They score worst on their environmental standards.

## Average scoring of financial institutions on policy criteria, by country of the institution

Country	Scope of commitments	Environmental standards	Social standards	Total
Netherlands	80%	65%	90%	78%
Switzerland	90%	50%	60%	67%
United Kingdom	65%	35%	50%	50%
Germany	40%	20%	60%	40%
United States	53%	20%	40%	38%
Japan	43%	10%	40%	31%
Singapore	30%	0%	0%	10%
Indonesia	5%	0%	5%	3%
China	4%	0%	0%	1%
Malaysia	0%	0%	0%	0%

- financial institutions, which are the biggest investors in the 'forest risk' sector, score 0% on all policy criteria.
- Investors from 4 European countries scored highest on their policies.


## Average scores per criterion

Scope of commitments	Average of Score (%)
Applied to all forms of investments and financial services provided?	30%
Applied to all relevant clients including all subsidiaries across a business group's activities?	7%
Are clients' operations required to undergo regular independent assessment in relation to legality, social and environmental issues?	19%
Does the bank have a publicly available forestry sector specific policy?	37%
Is the bank a signatory to the main international covenants relevant to forestry and land issues?	57%
Total	30%

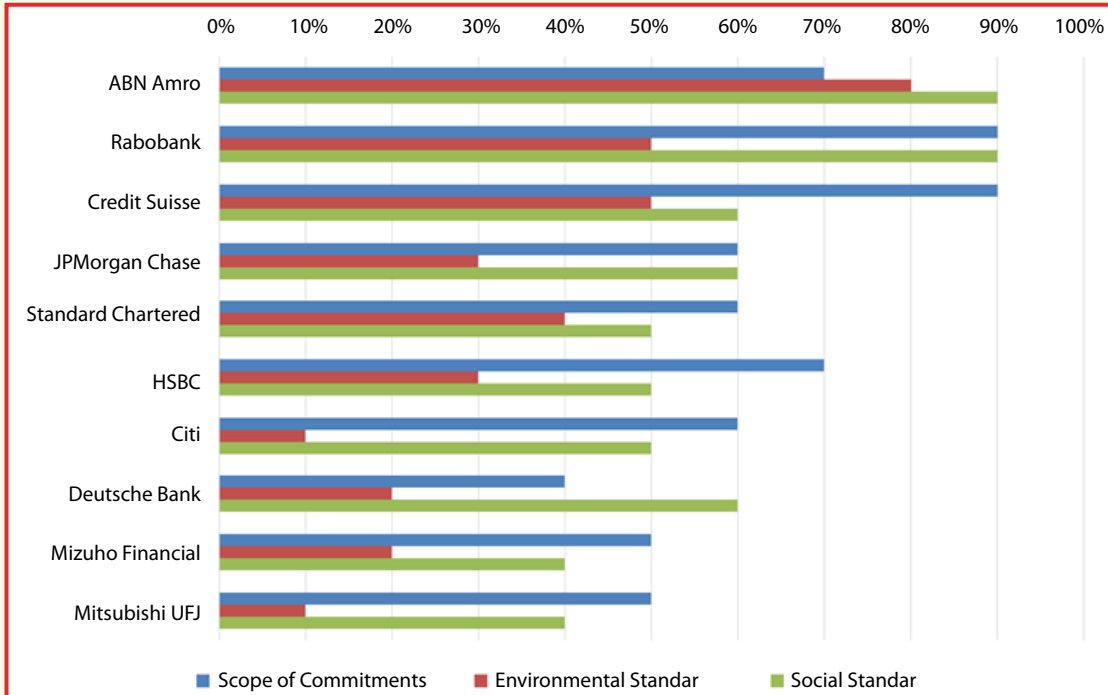
Environmental standards	Average of Score (%)
Are operations in High Conservation Value (HCV) forest prohibited?	13%
Are operations in peat or other High Carbon Stock (HCS) forest prohibited?	13%
Are operations in protected areas prohibited?	17%
Is proof of legality in operations and sourcing required?	20%
Is the degradation or conversion of natural forests prohibited?	4%
Total	13%


Social standards	Average of Score (%)
Are health & safety protections for the community and workers required?	24%
Do communities affected by client operations have any grievance mechanism available to them?	22%
Is a check of land tenure legality required?	17%
Is forced labour and child labour prohibited?	33%
Is proof of the Free, Prior and Informed Consent (FPIC) of indigenous communities required where applicable?	26%
Total	24%



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- Financial Institutions score best on the criterion regarding signing international covenants.
  - They score worst on applying their policies to all subsidiaries of a client.
  - Financial institutions score best on the criterion demanding proof of legality of operations
  - They score worst on prohibiting deforestation or degradation of natural forests.
  - Financial institutions score best on the criterion prohibiting forced and child labour.
  - They score worst on checks of land tenure

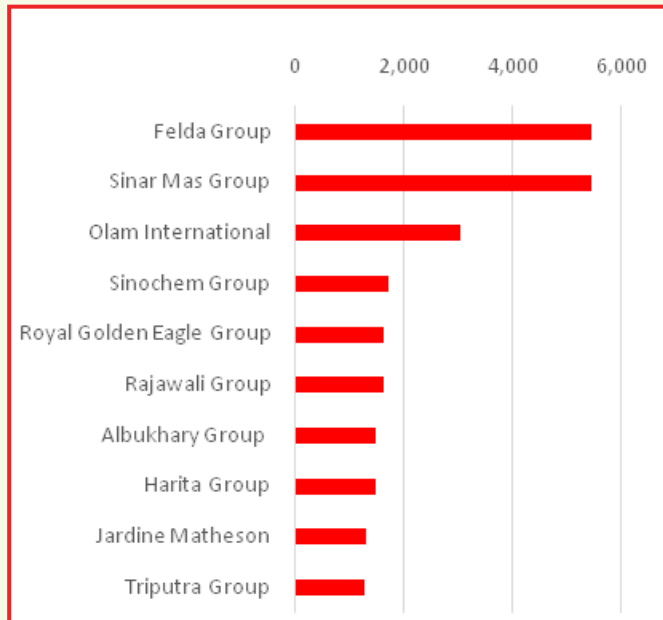
## Average scores per criterion



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- ABN Amro has on average the best policies and its scores by far best on Environmental standards.
  - ABN Amro and Rabobank score best on social standards.
  - Rabobank and Credit Suisse score best on the scope of their commitments.
  - Among the top 10 best scoring financial institutions, there are 6 European ones, 2 American and 2 Japanese.
  - Malaysian, Chinese, Singaporean and Indonesian banks are absent from the top 10.

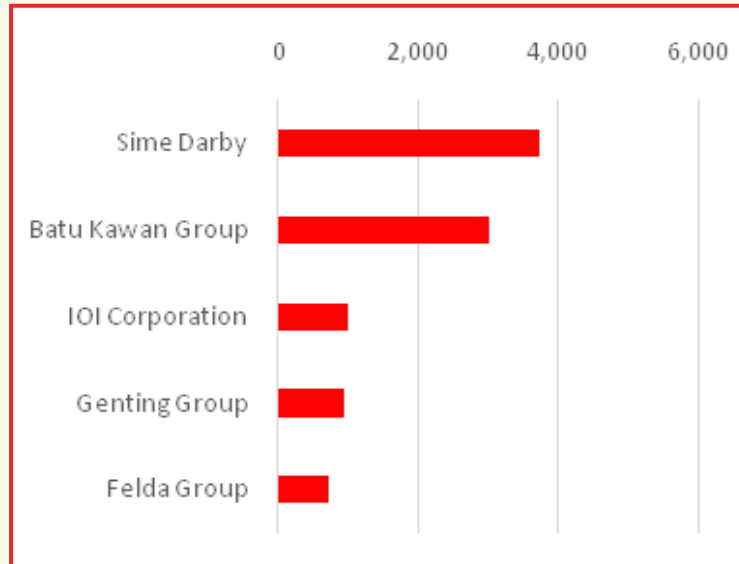
# Companies

## Loans and Underwriting by Group



- The top three Groups that received most loans and underwriting services, were Malaysian Felda, Indonesian Sinar Mas and the Singaporean Olam International.
- The high value for Felda is largely due to its 2012 IPO.
- Sinar Mas's value is largely attributable to its yearly bond issuances.
- Olam had a relatively large revolving credit in 2014 and 2015. But it also uses a mix of bond issuances and corporate loans.
- Half of the companies in the top 10 most financed, are Indonesian groups. Only 2 are Malaysian ones.

## Loans and Underwriting by Group



- Sime Darby is the company for which financial institutions hold most bonds and shares.
- The top 4 companies for which financial investors hold most bond and shares, to not appear in the top 10 of most financed companies in terms of loans and underwritings.



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