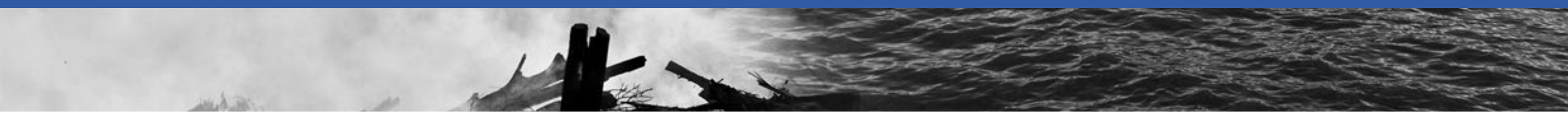
The underbelly of the financial world

How it is not taking responsibility for abusive practices in palm oil production

SOMO Background Paper | November 2017



In this background paper, SOMO explores the diverse financial instruments and complex channels of the financial sector through which big companies with social and environmental malpractices are being financed. This is examined through the example of the palm oil sector and a palm oil conglomerate, the Salim conglomerate. This provides a concrete overview of the wide range of financiers involved, from banks to pension funds and so-called passive investment funds. It reveals financing instruments scattered around the world, also offering profitability for an even broader range of financial players. This contrasts with the small or illusive benefits for, and often many abuses to, communities and workers on the ground. The *first part* of this background paper therefore explains:

1. The continuing environmental, social and governance (ESG) problems in the palm oil sector
2. The complex corporate structure that delineates the financing channels
3. The diverse financing instruments:
4. Other financial players that indirectly facilitate or benefit from the financing instruments
5. Why financial profits do not benefit agricultural workers and communities

The example of the palm oil conglomerate in this background paper is chosen based on the collaboration between SOMO and TuK INDONESIA. It aims to raise the international discussion on how regulating financiers of companies could better prevent destructive practices on the ground which TuK INDONESIA[1], and many other civil society organisations, have been witnessing over the years. The background paper wants to clarify why financiers are not being prevented from financing continued malpractices by listed corporations. It especially wants to provide insights into the lack of a national and international regulatory framework that relates to the actual operating practices of the financial sector, and its influence (or not) over the companies it finances. The *second part* of this background paper therefore explores:

6. Why do abusive palm oil companies continue to obtain financing?
7. What solutions are possible through new regulations?

Finally, the way financiers of large conglomerates are, or are not, regulated regarding their social and environmental impact, exposes issues that have often been neglected in the discussion about financiers of palm oil companies so far. In order to raise the debate about the need for new regulatory approaches to the financial sector, the paper:

8 *Concludes* with an overview of the bottlenecks in the financial chain, which result in financiers not preventing companies from contributing to climate change or breaching people's basic rights.
9 Offers general *recommendations* about new international regulatory avenues that would increase the responsibility of the financial sector in order to avoid negative environmental, social and economic consequences.

The methodology used for this background paper was to first access existing and publicly available information, such as annual reports and corporate information from financial analysts available on the internet, to provide an overview of the complex corporate structure of the Salim conglomerate. To keep the focus on palm oil production, the corporate chain of ownership within the wieldy Salim conglomerate is followed down to the subsidiary PT PP London Sumatra Indonesia Tbk, an important palm oil production subsidiary. By using public information such as the Forests & Finance website[2], and special financial databases such as Thomson Reuters and Bloomberg, the financiers of different parts of the Salim conglomerate's palm oil chain have been identified and briefly explained. Indofood Sukses Makmur and PP London Sumatra Indonesia have been contacted for review of the financial information included in this paper but have not responded.

Examples of financing structures have been chosen to highlight particular features, makeups and strategies of the diverse global financiers and the resulting challenges.

1 The continuing environmental, social and governance (ESG) problems in the palm oil sector

For many years, the palm oil sector in Indonesia has been documented to have large and small companies involved in abusive social and environmental practices (see Box 1 for overview).[3] In expanding their operations, these palm oil companies have not only been involved in human rights abuses against local communities and workers, but also in land and forest degradation and deforestation. They have also contributed to climate change. In 2015, fires set to clear land and forests for industrial oil palm plantation expansion in Indonesia and Malaysia blanketed large parts of Southeast Asia in a choking haze that resulted in a public health crisis and emitted more greenhouse gases in a few months than Japan's total annual fossil fuel emissions.[4]

There are many reasons why palm oil operations in Indonesia are allowed to continue with their social, environmental, and governance (ESG) malpractices. One reason is the high demand for cheap palm oil, an ingredient of many food and personal care products used in daily life. This makes palm oil desirable and profitable for food processing companies and retailers, as long as it remains cheap.

Another reason is that palm oil companies continue to be financed so that they can operate and expand in a way that does not challenge their malpractices.

The Salim conglomerate is one of Indonesia's largest multinationals that operates palm oil plantations in Indonesia and has documented abusive practices.[5] The 'Salim conglomerate' with its complex structure (see below 2) and array of global financing channels, reflects similar financing of other palm oil conglomerates and so provides an illustrative example of the various ways in which large palm oil companies are being financed.

2 The complex structure of the company

In order to identify the financiers of large palm oil companies, one must first understand how such production companies are structured. That allows to detect which financiers are financing which part of the company.

As with many palm oil companies, the corporate structure of the Salim conglomerate is very complex; the conglomerate has more than hundred direct and indirect subsidiaries[6] that are listed and unlisted companies, with operations in many different industries, ranging from food to infrastructure and telecommunication in various Asian countries.

The focus of the illustration in this background paper is on those parts of the Salim conglomerate involved in palm oil production in Indonesia. PT Salim Ivomas Pratama Tbk[7] and PT PP London Sumatra Indonesia Tbk[8] are members of the Round Table on Sustainable Palm Oil (RSPO). However, PT PP London Sumatra Indonesia Tbk is subject to a complaint[9] for not adhering to the sustainable 'Principles and Criteria' of production as defined by the RSPO.[10] RSPO complainants have asked for the suspension of the company's membership in the RSPO.[11]

PT[12] *Perusahaan Perkebunan London Sumatra Indonesia Tbk* (in short: *PP London Sumatra, or 'Lonsum')* is an important starting point in the chain of subsidiaries that belong to the conglomerate ultimately owned by Anthoni Salim (referred to hereafter as 'Salim conglomerate': see Figure 1).

Box 1 Overview of harmful and abusive 'ESG' practices by palm oil companies

Environmental risks

- **Biodiversity loss:** Tropical deforestation and degradation is one of the leading drivers of biodiversity loss and extinctions of Southeast Asia's many iconic species remaining in tropical forests.
- **Climate change:** Tropical deforestation releases massive amounts of carbon stored in trees and is estimated to contribute to 14-21% of annual global greenhouse gas emissions.
- **Water:** Deforestation impacts water flows, flood protection and rainfall patterns at regional, national and international scales, with water value losses in excess of the forest timber value.
- **Pollution:** Logging and plantations for palm oil, pulp and paper, and associated mills and refineries, cause soil erosion and chemical contamination of freshwater systems.

Social risks

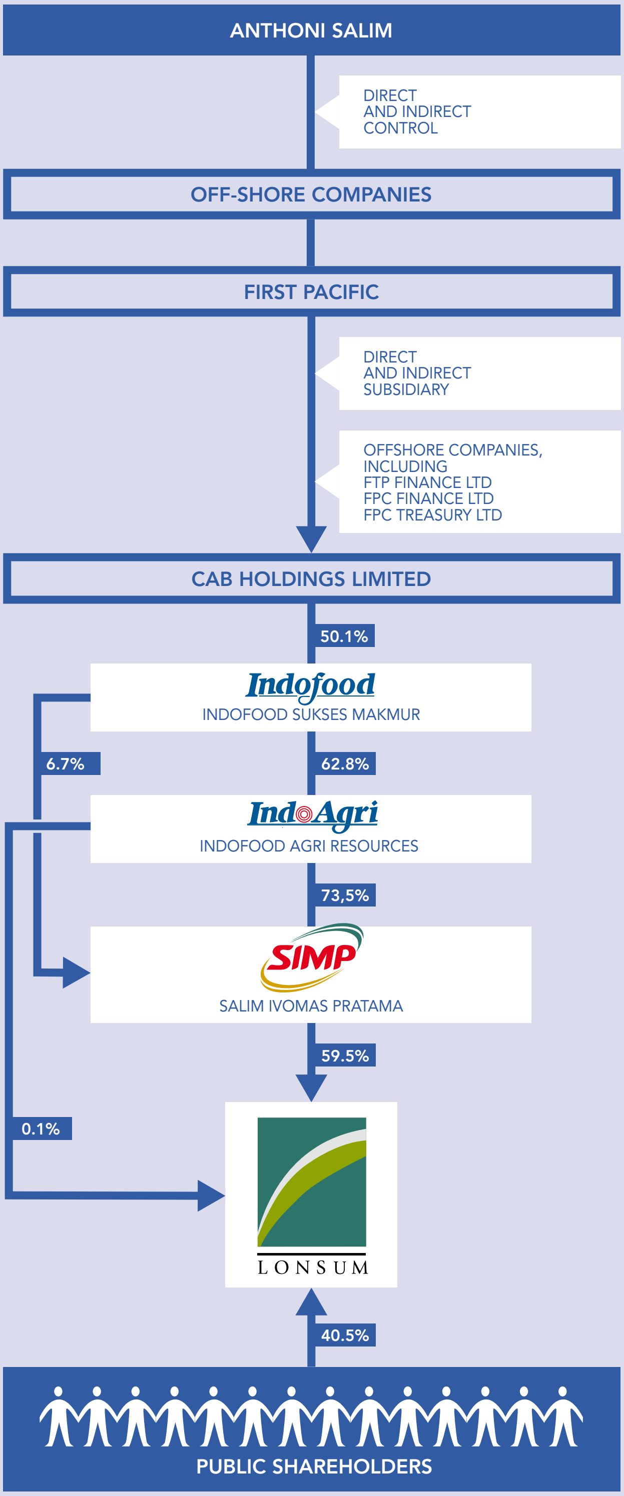
- **Displacement:** Displacement for plantations causes social upheaval, food insecurity and poverty, as hundreds of distinct indigenous cultures and languages across Southeast Asia are dependent upon healthy forests.
- **Human rights violations:** Local and indigenous communities routinely experience serious rights violations involving private company and state intimidation, violence, rape and sometimes killings.
- **Land conflict:** Conflicting legal claims over land tenure between customary landowners and plantation companies are common, and may be associated with government failure to recognize or protect indigenous and customary land rights.
- **Exploitation:** Exploitative labour standards in plantation sectors are common, including forced labour, child labour and exposure to toxic pesticides and fertilizers, without adequate health and safety protections.
- **Health hazards:** The deliberate burning of forest to develop palm oil plantations causes major public health impacts across Malaysia, Indonesia and Singapore resulting from fire haze.

Governance risks

- **Bribery:** Companies may be engaged in bribery and corruption at the local, regional or national levels, often in relation to concession licensing and permitting processes.
- **Illegal activity:** Typical illegalities include flouting of national laws that designate what forest landscapes are permitted, and operating outside of permitted areas.
- **Economic/financial crime:** Practices such as tax evasion, transfer pricing, and money laundering are a major source of illicit financial flows out of Southeast Asia.
- **Reputational harm:** Illegal and/or unethical business standards can give rise to lasting reputational damage that can have a significant financial effect on shareholder value.

Source: Forest & Finance, Is your money destroying rainforests?, September 2016, p. 2, http://forestsandfinance.org/wp-content/themes/ran/pdf/Forests%20%26%20Finance%20Brochure%202016.pdf (viewed 15 October 2017).

Figure 1 The ownership of PT PP London Sumatra Indonesia Tbk (Lonsum) within the 'Salim conglomerate'



Sources: Lonsum, Annual report 2016 - Sustaining Growth Potential, p. 12; Orbis, First Pacific Company Limited, information extracted on 9 November 2017; Thomson Reuters Eikon, Tear sheet 20171109_130944; See also http://www.indofood.com/page/shareholders-composition (viewed 9 November 2017); Chain Reaction Research, Indofood Agri Resources – Material Risks from Contested Land and Labor Issues, 6 February 2017, p. 3.

'Lonsum' is one of the oldest oil palm plantation companies in Indonesia and produces, processes and trades palm oil and other vegetable oils.[13] It is controlled through owning a majority of the shares by *PT Salim Ivomas Pratama Tbk*, a subsidiary of the Salim conglomerate. In turn, *Indofood Agri Resources Ltd* (in short *'Indofood Agri'*) holds the majority of shares of PT Salim Ivomas Pratama Tbk. Moving further up the corporate structure, one finds that *PT Indofood Sukses Makmur Tbk ('Indofood')* owns the majority of shares of Indofood Agri. *CAB Holdings Ltd* controls 'Indofood' through a tiny minority of shareholdings[14], and is itself an indirect subsidiary of *First Pacific Company Limited* (*'First Pacific'*). As at 30 August 2017, First Pacific's 'economic interest' in Indofood was 50.1%.[15] First Pacific is an off-shore company that is based in Bermuda,[16] and CAB Holdings Ltd is based in the Seychelles[17], known secrecy jurisdictions used for tax avoidance. First Pacific is directly and indirectly, through off-shore companies, controlled and owned by CEO Anthoni Salim.[18]

The different subsidiaries of the Salim conglomerate within the palm oil corporate chain mentioned above have issued shares (or 'stocks'), on different stock exchanges. Although share issuing provides them with an external financial inflow, a majority of shares have remained within the Salim conglomerate, which results in the fact that the ultimate owner, Anthoni Salim, has control over the conglomerate's decision-making and profits.

PP London Sumatra ('Lonsum') is listed on the Indonesian stock exchange based in Jakarta, meaning part of its shares have been issued and are traded on that stock exchange to which foreign investors have access (see below 3.3). *PT Salim Ivomas Pratama* owns 59.5% of Lonsum's shares. In turn, PT Salim Ivomas Pratama is listed on the Indonesia stock exchange (referred to as 'SIMP'), but 73.5% of its shares are directly owned by '*Indofood Agri*', which is listed on the Singapore stock exchange. The shares of Indofood Agri are owned to 62.8% by *'Indofood'* listed on the Indonesian stock exchange. *CAB Holdings* owns 50.1% of the shares of Indofood[19] and is controlled by First Pacific, based in Bermuda. *First Pacific* is listed on the Hong Kong stock exchange (see Figure 2), but through majority shareholdings by off-shore companies ultimately controlled by Anthoni Salim.[20] Based on the values of the stock market shares, the 'market value' (also called 'capitalisation') of First Pacific on 10 November 2017 was HK $25,444.04 million,[21] around US$ 3.3 bn or € 2.8 bn.

3 Diverse financing channels

The way the many identified Salim conglomerate subsidiaries are financed, is not only through issuing of shares and intra-company shareholding. The diverse external financing channels of the Salim conglomerate subsidiaries are explained below and categorised as follows:

- Various kinds of loans and credit: corporate loans, syndicated loans, revolving credits and intra-company loans;
- Issuing and holding of corporate bonds;
- Issuing and holding of shares.

Together, these financing channels provide interesting insight into the operations of the financial sector, and whether or not they are preoccupied with the impact of their financing instruments.

3.1 Loans and credit from banks and other financial companies

Banks and other creditors, such as financial holdings, have financed various subsidiaries of the Salim conglomerate with different kind of loans, such as corporate and syndicated loans and revolving credit.

Corporate loans

When banks or other creditors provide a corporate loan, they finance particular activities of a company, or the company in general. They assess the profit-making business model of the company and where applicable, that of the particular activity. Depending on the risk management model of the bank, the social and environmental impacts of the borrowing company may be taken into account prior to loans being authorised. However, this information may not even be sought. Current risk assessment mechanisms at many banks do not include social and environmental issues, even if they could contribute to undermining the company's income, e.g. due to fines for forest fires or conflicts with local populations.

Corporate loans have been provided to different subsidiaries of the Salim conglomerate that are part of the palm oil corporate ownership structure. One example here are a total of US$ 1.418 bn bank loans that were still on the books of Indofood at the end of 2015, and would have to be paid off in the coming year(s) (see Table 1). The credit providers of these loans are not only located in Indonesia, the country of operation, but have their headquarters in different continents.

Table 1 Bank loans outstanding at PT Indofood Sukses Makmur Tbk, at the end of financial year 2015

Bank	Country	Value (USD million)
Bank Central Asia	Indonesia	$ 454.9
Bank Mandiri	Indonesia	$ 117.7
Bank of Tokyo-Mitsubishi	Japan	$ 70.0
Citibank	United States	$ 88.3
DBS	Singapore	$ 163.3
Mizuho Bank	Japan	$ 311.8
Rabobank	Netherlands	$ 17.9
Standard Chartered	United Kingdom	$ 4.8
Sumitomo Mitsui Bank	Japan	$ 48.6
UOB	Singapore	$ 141.1
Total		**$ 1,418**

Source: Chain Reaction Research, Indofood Sukses Makmur and First Pacific: Financial Risks from Upstream Investments, 7 February 2017, p. 7.

Indofood Agri is a subsidiary of Indofood and is also financed by some of the same banks as Indofood Agri (e.g. Bank Mandiri: see Tables 1 and 2).

Table 2 Bank loans provided to Indofood Agri and its subsidiaries (2014-2016), headquarter countries of the lending banks

Debtor	Bank	Country
Indofood Agri	Sumitomo Mitsui	Japan
Salim Ivomas Pratama	Bank Central Asia	Indonesia
	Bank Mandiri	Indonesia
	Citigroup	United States
	Sumitomo Mitsui Financial	Japan
Salim Ivomas Pratama subsidiaries	Bank Central Asia	Indonesia
	Rabobank	Netherlands
	DBS	Singapore
	Bank Permata	Indonesia
	Bank OCBC NISP	Singapore
	United Overseas Bank	Singapore

Source: Chain Reaction Research, Indofood Agri Resources – Material Risks from Contested Land and Labor Issues, 6 February 2017, p. 10.

Subsidiaries of the same bank or creditor with different names, which are thus different legal entities, can finance different Salim conglomerate subsidiaries. For instance, Citibank is lending to Indofood (Table 1) while Citigroup is financing Salim Ivomas Pratama (Table 2). Similarly, different units or subsidiaries from the same financier – for example, both Sumitomo Mitsui and Sumitomo Mitsui Financial – provide loans to Salim conglomerate subsidiaries whereby one such subsidiary controls the other through shareholding ownership, as is the case of Indofood Agri (Table 1 and 2).

3.1.1 Syndicated loans: loans arranged by a syndicate of banks

Large conglomerates that integrate different palm oil companies (from production to processing and sales) like the Salim conglomerate receive major loans, sometimes worth hundreds of millions of US dollars. Several banks are involved in financing parts of the loan in order to spread the risks in case of default of the loan. The lead arranging bank (sometimes several ones) provides information about the borrowing company, which does mostly not include much about the social and environmental impact of the company. It 'arranges' the different banks that work together in a consortium and form a 'syndicate of banks' that each provide part of the loan through the same arrangement with the company. An arranged or 'syndicated' loan may not necessarily be for a specific activity of the company, but could also be for financing a particular strategy of a company. This makes it difficult to identify how much of the loan is allocated for palm oil production within a large conglomerate.

Box 2 Example of a syndicated loan

'FP Finance (2011) Ltd' belongs to the Salim conglomerate[22] and is one of the less known subsidiaries of Bermuda based First Pacific[23].
FP Finance (2011) Ltd received a syndicated loan[24] of US$ 200 million in total from 12 December 2010 to 28 February 2016, for general corporate expenditures. Mizuho Corporate Bank Ltd (headquartered in Japan) was the lead arranger of this syndicated loan financed by 28 banks from Japan, United Kingdom, China, Thailand, Philippines, Taiwan, France, Singapore, Canada, Italy and Malaysia.

3.1.2 Revolving credits

Like many companies, a subsidiary of the Salim conglomerate received a revolving credit facility (see Box 3). Through revolving credit, a company can receive access to a maximum of credit for a particular period when it is required. By paying a fee to the bank, the company can borrow within a certain period at a floating interest rate based on the period and amount being borrowed. This is often used for general company financing; the company can then determine what the funds are used for. Consequently, the lender may not be interested in making inquiries as to what the potential impact of the revolving credit facility might have.

Box 3 Example of a revolving credit facility[25]

First Pacific received a US$ 200 million revolving credit facility for the period between 25 September 2014 and 25 September 2018, from a syndicate of banks: Bank of America, HSBC Holdings PLC, Malayan Banking Bhd, Mizuho Corporate Bank HK and Sumitomo Mitsui Banking Corp. Each of the creditors contributed US$ 40 million.

3.1.3 Intra-company loans

In 2016, PP London Sumatra ('Lonsum') provided a short-term loan to an associate company, Mentari Pertiwi Makmur ('MPM'), in which Lonsum owns shares.[26]
This loan is non-interest bearing, and demandable at any time by Lonsum.[27] Lonsum also granted a short-term loan to Sumalindo Alam Lestari, a subsidiary of MPM, "for the purposes of operational activities".[28] This loan is charged at a market interest rate and is demandable at any time by Lonsum.

These are just two examples of how complex intra-corporate structures provide the opportunity to subsidiaries to give loans to other companies linked to the same conglomerate. Intra-corporate and inter-company lending is a means of company financing, and reduces the profits of the lending subsidiary as its profits are transferred through loans. When loans are made between subsidiaries with high and low tax jurisdictions, and corporate entities are offshore, and while perfectly legitimate, such intra-company loans can lead to tax avoidance.

3.2 Corporate bonds

In addition to being financed through loans, the Salim conglomerate subsidiaries issue corporate bonds to raise capital up to a particular monetary amount.

Issuing new corporate bonds takes place with the support of investment banking services (see below 4.1) in order to sell them to investors on financial markets. The buyers pay the price of the bond(s) with the legal stipulation that the sum will be paid back to the bondholder at the end of the determined period. In the period between the issuing and pay-back of the bonds, which often spans years, a fixed interest rate (also known as a bond dividend) is paid to bondholders at fixed intervals. These payments can only be suspended under rare circumstances of financial stress at the company (as determined in the bond contract).

Table 3 **Issuance of bonds of Indofood Sukses Makmur: estimated allocation to the company's palm oil and timber sectors**

Bank	Country of bank headquarter	Value in US$ million	Period	Sector
DBS	Singapore	19.39005	14 May 2014 to 13 May 2019	Palm oil
Indo Premier Securities	Indonesia	19.39005	14 May 2014 to 13 May 2019	Palm oil
Bank Mandiri	Indonesia	19.39005	14 May 2014 to 13 May 2019	Palm oil
Trimegah Securities	Indonesia	19.39005	14 May 2014 to 13 May 2019	Palm oil
DBS	Singapore	1.709804	14 May 2014 to 13 May 2019	Timber
Indo Premier Securities	Indonesia	1.709804	14 May 2014 to 13 May 2019	Timber
Bank Mandiri	Indonesia	1.709804	14 May 2014 to 13 May 2019	Timber
Trimegah Securities	Indonesia	1.709804	14 May 2014 to 13 May 2019	Timber

Source: Forest & finance, http://forestsandfinance.org/, downloaded 2 November 2017, based on Thomson Reuters Eikon, Tear sheet 2640740101, viewed in February 2017.

One example is the bonds issued for Indofood Sukses Makmur by a majority of Indonesian banks in May 2014 (see Table 3). These bonds are to be repaid in June 2019.[29] It is not always clear for which particular activity of the subsidiary's business the bonds will be used. Forest and Finance analysts estimated which financial income from that bond issuance could be allocated to the palm oil business of Indofood (see Table 3).

Once issued, the bonds can be sold and bought by investors on the bond market, a 'secondary' financial market. The price at which a bond is traded depends on various expectations by investors, e.g. whether a bond will be repaid, or how much the bond will be bought or sold given changes in interest rates elsewhere. The supply and demand of bonds on the financial markets thus determine their prices.

The investors who hold corporate bonds can be spread throughout the global financial markets. Bondholders of subsidiaries belonging to the Salim conglomerate in 2016 had headquarters located in different continents: Denmark, France, Germany, UK, US, Switzerland, Singapore, Japan and Canada.[30] However, the subsidiary or legal entity of the same investor, which actually holds the bonds, can be located in different jurisdictions (see Table 4).

Table 4 **Examples of global investors through their subsidiaries based in different countries holding bonds of Salim conglomerate subsidiaries related to palm oil activities, 2010-2016**

Bank	Bondholding valued in USD mln
BlackRock (US)	
Singapore	0.041946
United States	0.020973
Deutsche Bank (Germany)	
Germany	0.069911
Taiwan	0.058394
JPMorgan Chase (US)	
India	0.503357
Japan	0.036842
Taiwan	0.567179
Manulife Financial (Canada)	
Hong Kong	0.53981
United States	0.19943
Power Financial Corporation (Canada)	
Canada	0.359391
United States	0.000184
Royal Bank of Canada	
United Kingdom	0.709941
United States	0.034955

Source: Forest & Finance, http://forestsandfinance.org/, selection made on 2 November 2017: estimation of the bondholding part that is invested in the palm oil sector of the Salim conglomerate.

3.3 Shareholding

The Salim conglomerate – similar to many large corporations – obtains financing by selling shares through its subsidiaries on the stock market. The issuing of shares provides operating capital in addition to the financing received through loans and bonds, and through the intra-company shareholding. Shareholding links the Salim conglomerate to the financial markets as follows.

3.3.1 Share issuing: income for the company

To issue a certain amount of shares on a particular stock market (called the initial public offering (IPO)), a subsidiary or, in general a company, pays one (or more) investment banks, or banks with investment banking divisions, which (collectively) provide a range of related services, called 'underwriting': from estimating the price per share to identifying potential buyers, and often guaranteeing the sale of all or part of the shares. The income of the sale of the shares from one IPO goes to the issuing company minus the IPO service costs for the investment banking services and other financial services (see also below 4).

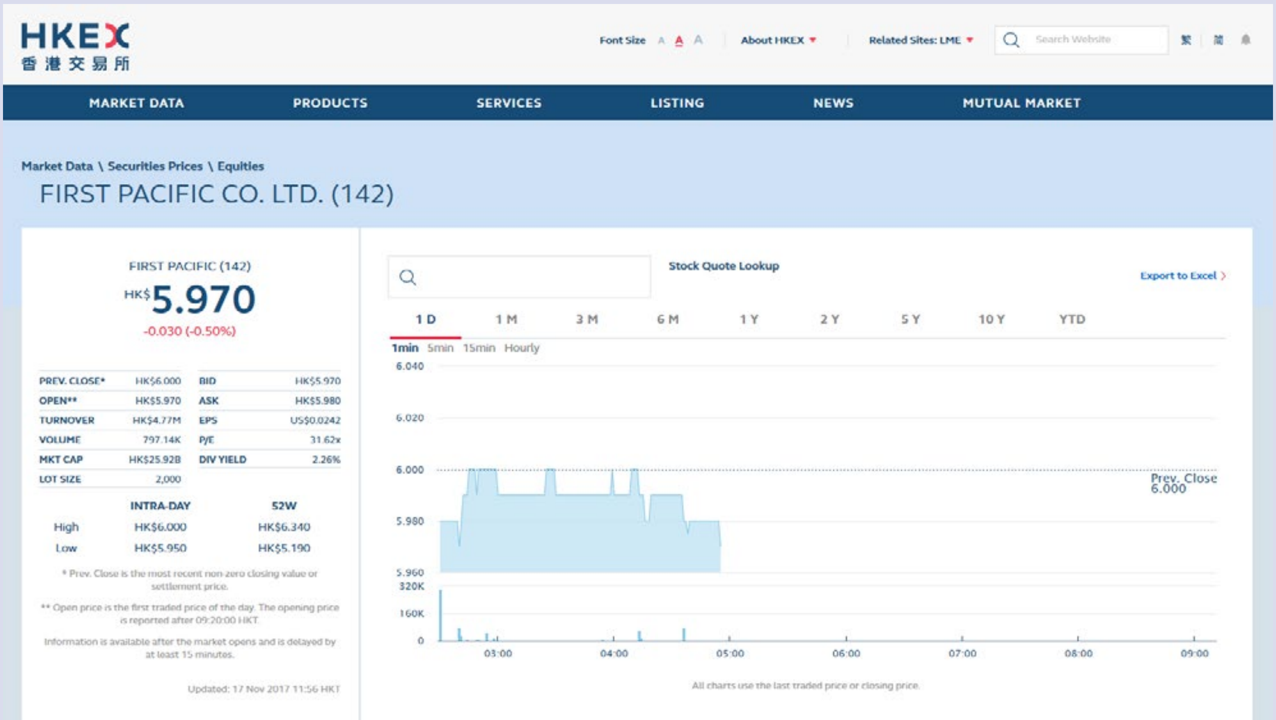
Not all shares are sold 'publically' on the stockmarket. In 2011, Salim Ivomas Pratama undertook an IPO in which Kim Eng Securities (based in Singapore) was the lead underwriter, Deutsche Bank (Germany) and Mandiri Sekuritas (Indonesia) were secondary underwriters and 19 other financiers participated as 'co-managers' of the share issuance.[31] These shares were not publically traded on the stockmarket but bilaterally with investors.

3.3.2 Share holding: trading on the stockmarkets

Once the original shares are sold ('listed') on a particular stock market, they can be further sold and bought by all kinds of shareholding investors on that stock market), i.e. traded on the so-called 'secondary market'. Those buying and selling the shares then gain or lose money according to whether the stock market share price increases or decreases at the time in which the shareholder sells the share on that stock market. The price depends on available information e.g. as to how profitable the company is, as well as the level of share buying and selling (offer and demand). Price changes are made available instantly by the stock exchanges (e.g. via internet) (see, for instance, Figure 2). The information made available by all kinds of analysts is mainly financial, there is no standard information made available about the social and environmental impact of the company (see Figure 2).

Note that the issuing company itself does not make any profits or losses from increasing or decreasing shareholder prices on the secondary market after the IPO. The share value, and the related 'market valuation' of the company indicates how well a company is doing financially or what

Figure 2 Price on the HongKong Stock exchange of First Pacific



Source: https://www.hkex.com.hk/Market-Data/Securities-Prices/Equities/Equities-Quote?sym=142&sc_lang=en (viewed 17 November 2017, at 11.54 a.m.).

the market expects the company to do financially in the future. This, in turn, is reported on by financial analysts, and influences the ability of a company to issue new shares or obtain loans at interesting interest rates.

If a company is profitable, some of the profits can be paid to the shareholders through dividends, a (small) amount of cash per share transferred to the shareholders. A decision to do so is approved at the annual shareholders meeting, based on the profits made according to annual accounts. For instance, the Annual General Meeting of Shareholders of PP London Sumatra, held on 2 June 2016, approved the payment of dividends worth a total of Rp 252.3 billion (ca. € 15,808,185[32]) taken from the 2015 income.[33] Since there are 6818.03 million shares in total, this meant Rp 37 per share.

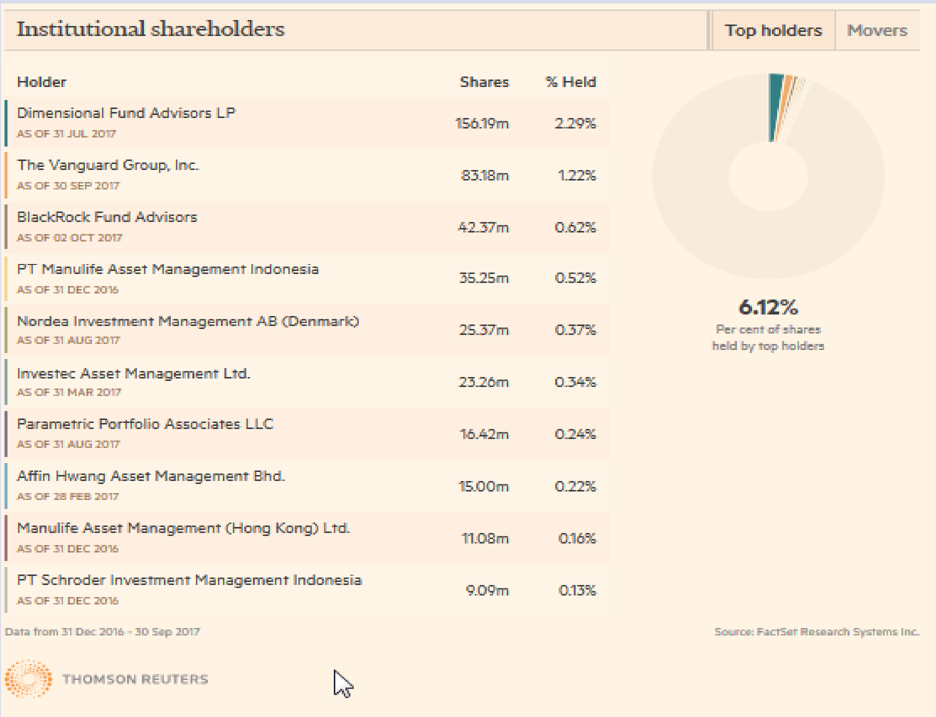
The shares traded on a stock market can be held by a range of financial players, from individuals to institutional investors. Investors can be based all over the world if the stock market allows foreign investors to trade on its platform. Nowadays, these are digitalised and accessible worldwide.

For example, Indofood, the corporate entity that covers most of the palm oil activities within the Salim conglomerate, has shareholders from different continents.[34] The top institutional shareholders of PP London Sumatra are also headquartered on different continents (see Figure 3).

Institutional investors holding shares and bonds of the various subsidiaries of the Salim conglomerate include:[35]

- *Private pension funds*, e.g. APG Group pension fund manager from The Netherlands, and the UK-based Prudential.
- *Investment fund managers and asset managers*, and fund issuers from all over the world, such as Dimensional Fund Advisors, Vanguard and BlackRock. Some of the fund managing companies have various parts of their company around the world buy shares or bonds from the same company. For instance, the investment fund issuer and fund manager BlackRock (US-headquartered) claimed to have a total of US $5.7 trillion under management at the end of June 2017.[36] BlackRock has been buying shares of the Salim conglomerate, and its subsidiaries like Indofood Sukses Makmur or First Pacific, from its offices based in several of the countries in which it operates, including the US, UK, Ireland, Hong Kong and Canada. Even different BlackRock entities within the US have been buying shares.[37]
- Large *insurance companies*, such as Manulife (headquartered in Canada[38]), receive premiums from clients and invest the money to obtain returns that can be used to pay insurance claims. Their asset managers, who are based in financial centres around the world, such as Manulife Asset Managers (Hong Kong-based[39]) and PT Manulife Asset Management Indonesia, invest

Figure 3 The top institutional shareholders of PP London Sumatra



Holder	Shares	% Held
Dimensional Fund Advisors LP AS OF 31 JUL 2017	156.19m	2.29%
The Vanguard Group, Inc. AS OF 30 SEP 2017	83.18m	1.22%
BlackRock Fund Advisors AS OF 02 OCT 2017	42.37m	0.62%
PT Manulife Asset Management Indonesia AS OF 31 DEC 2016	35.25m	0.52%
Nordea Investment Management AB (Denmark) AS OF 31 AUG 2017	25.37m	0.37%
Investec Asset Management Ltd. AS OF 31 MAR 2017	23.26m	0.34%
Parametric Portfolio Associates LLC AS OF 31 AUG 2017	16.42m	0.24%
Affin Hwang Asset Management Bhd. AS OF 28 FEB 2017	15.00m	0.22%
Manulife Asset Management (Hong Kong) Ltd. AS OF 31 DEC 2016	11.08m	0.16%
PT Schroder Investment Management Indonesia AS OF 31 DEC 2016	9.09m	0.13%

Source: Financial Times, https://markets.ft.com/data/equities/tearsheet/profile?s=LSIP:JKT (viewed 20 October 2017), based on Thomson Reuters in PP London Sumatra[40]. These are separate legal entities that are regulated and supervised by the financial authorities of the jurisdictions in which they are based.[41]

Each of the institutional shareholders only holds a small amount of the overall shares. For instance (see Figure 3), the largest individual shareholder of PP London Sumatra shares sold on the Indonesian stock exchange has 2.29%, while the 10 top shareholders own 6.12% of the overall shares. Institutional shareholders prefer to hold small percentages of the shares or bonds of a company, amongst others as a strategy to avoid risks of large financial losses in case the company they invest in performs badly. This also means that separately, each investor can hardly influence the company and has little control over the management through voting at annual shareholders' meetings. Such voting, or other means of dialogue with the company management, e.g. letter-writing or conversations with the management, is called 'engagement', amongst others used by investors who would like to see practices and decisions of a company change.

It is also possible for shares, or a part of the total issued shares, not to be bought and sold on the stock market, but instead held by the company itself, traded bilaterally between two parties (e.g. between a bank and an investor) or traded on trading platforms or systems that are not publicly transparent. For instance, part of the shares of First Pacific, which belongs to the Salim conglomerate, are also sold privately in the US (i.e. not on a stock exchange, or 'over the counter' (OTC)).[42]

3.3.3 Intra-company shareholding

The shareholdings of the Salim conglomerate (see Figure 1) are also used for intra-corporate ownership, with one part of the company holding all or part of the shares of other parts of the company. This results in a complex web of ownership, similar to other large palm oil companies. Since intra-corporate shareholdings normally result in another part of the company holding the majority of shares, this means that the other shareholders who buy their shares on the stock market[43] are a minority and have less control over decision-making within the Salim conglomerate.

The different subsidiaries of a company that have intra-company shareholdings also receive the dividends from the subsidiaries they partly own. In this way, dividend payments can move a larger part of profits to other subsidiaries than the shares held. In the case of the Salim conglomerate, the ultimate beneficiary of the dividends and shares owned within the Salim conglomerate is the Salim family and the CEO, Anthoni Salim (see Figure 1) .

These intra-company shareholdings also make it difficult for investors, analysts and stakeholders to know which parts of the shares finance which activity within the complex structure of the Salim conglomerate. For instance, it is not clear how far the profits of PP London Sumatra, mostly from palm oil activities, finance other activities within the Salim conglomerate. Nor is it clear how much of the financing of the First Pacific holding goes to palm oil activities. The analysts from the non-profit data base 'Forest & Finance'[44] have used a calculation methodology that provides insight into which forms of Salim conglomerate financing could be attributed to its palm oil activities. For example, Indofood has five reportable operating segments: Consumer Branded Products Business Group, Bogasari Business Group, Agribusiness Group, Distribution Business Group and Cultivation & Processed Vegetables Business Group. An estimation of how much of each financing is invested in each sector was based on the percentages of the reported amounts of capital expenditure for each segment.[45]

4 The financial industry's profit-making business based on shareholding and bondholding

Issuing shares and bonds has created additional opportunities for the financial industry to reap profits in many ways, from (highly paid) jobs to fee based transactions and services. These financial instruments allowed profits of the financial industry to increase continuously. They point to the externalities of the financial industry that naturally will seek to protect its own profits, but in so doing often overlooks human rights abuses and damages to the environment committed by its own clients. Important financial services that are also at play to facilitate and benefit from the shares and bonds issued by Salim conglomerate subsidiaries are investment banking, financial analysts, investment funds and other financial services.

4.1 Investment banking

Investment banking services obtain high fees for 'underwriting' and taking the lead in issuing the shares (IPO) or bonds of a company. Such services are undertaken by investment banks, such as Goldman Sachs, or international banks with large investment banking services, such as HSBC that issued shares of First Pacific in 2013[46]`, or even national banks, such as the Indonesian Mandiri Bank that issued shares of PT Salim Ivomas Pratama in 2011[47].

Before the shares are sold on a stock market, the underwriting banks assess the value in order to determine the price at which the new shares shall be sold. They provide information to potential shareholders through prospectuses, which usually contain financial and corporate information about the issuing company and the use of the extra capital, but rarely social and environmental impact information. The underwriting banks also promote new shares among potential shareholders, and coordinate the sale. The term underwriting refers to the risk underwriter(s) take to guarantee a minimum amount of shares or bonds to be sold, by first buying them themselves and when not all shares are sold, keep them on their own books.

Investment banks, or investment banking units, also advise and finance mergers and acquisitions by large companies that take over other companies. The buying of shares of the company to be acquired, and the loans to finance the purchase of these shares, are part of the investment bank services for which high fees are paid.

4.2 Financial analysts

Once shares and bonds are issued, they are mostly sold and bought on the stock markets often via financial intermediaries such as brokers. Shares are traded on the stock markets on which they are listed, or sometimes off the stock market (OTC), and bonds are sold and bought bilaterally between investors. Many financial analytical and advisory services by banks or specified consultancy or data firms provide analysis to (potential) shareholders about the past, current and future value of a share or a bond. They base their analyses on the company's financial information, events in the sector (e.g. agribusinesses such as palm oil are influenced by harvest forecasts or new regulations) and the buying and selling of shares or bonds on financial markets. They also compare the value of a company's shares with that of similar companies as benchmarks, often referred to as 'peers'. As is the case with listed subsidiaries of the Salim conglomerate, some of this information is publically available, e.g. through websites by financial data providers[48], or specific web pages by all kind of financial agencies (see for examples Figures 2, 3 and 4), as a way to encourage share trading. This information is reproduced through graphs and statistics for each company.

Figure 4 The publically available information about the share value of PP London Sumatra

Source: Financial Times, https://markets.ft.com/data/equities/tearsheet/profile?s=LSIP:JKT (viewed 24 October 2017)

In order to assess the financial value of a company's shares and bonds, and provide this information to investors, a company can order a 'rating' by a credit rating agency about its credit worthiness, for which the company itself pays. Based on the sum of analysts' information, financial advisory and trading service companies produce graphs and statistics for each company. Specific in-depth analytical information for investors is available upon payment to financial analysts based at (investment) banks, brokers or specialised consulting agencies.

In order to execute the trading (buying or selling) of bonds and shares in the name of a client, e.g. for individual investors, brokers or specific banks units receive fees. In addition, a stock market obtains fees for the shares and bonds traded on its stock market, even if most shares are traded electronically. Investors can also trade shares through the dedicated websites of banks and other financial companies offering digital trading platforms for which fees are due.

Some investors in shares or bonds use very speculative and highly short-term strategies, buying and selling shares according to the level of profit they can attain. Some investors buy and sell shares within a day (so-called 'day traders'), receiving lots of small profits or losses from the differences in share prices throughout the day. Some speculative institutional investors have investment strategies and special mechanisms (e.g. computerised algorithms) to profit when share prices fall. They can even on purpose induce share price drops as a result of their trading activities, called 'shorting'. Trading on the stockmarket has increasingly become automatic through pre-programmed computers, which can reinforce sudden price moves.

4.3 Investment funds: a growing investment instrument

Investors can invest indirectly in shares and bonds through investment funds managed for a fee by large banks or fund managing companies.

Shares and bonds of a number of different companies can be selected to constitute an investment fund, e.g. by fund managing companies such as BlackRock and Vanguard, which offer a huge range of investment funds.

Participation in some investment funds is only available for institutional investors. Mutual funds can be bought through financial intermediaries (including banks). The fund managers actively change the selection of financial instruments in their fund, according to the value of shares or other financial instruments.

In contrast, exchange trade funds (ETFs) make participation in that fund available to all kind of investors by selling shares of the fund that is itself listed on the stock market. The composition of the ETF, i.e. the range of shares, bonds or other financial instruments it owns or the values of which it tracks (see Box 4), is mostly determined by an index. An index is a list of company shares that are considered to be good performers. Designing the index is an intellectual property right. Therefore, a fee is paid to the designing company (this can be an investment bank) for the use of the index, e.g. by the manager of an index fund.

When participation in a mutual investment fund is purchased or a share in an ETF is held, a fee must be paid to the fund manager. For instance, BlackRock charges a fee of 0.63% of the profits to those investing in an ETF called 'iShares MSCI Indonesia ETF', which "seeks to track the investment results of a broad-based index composed of Indonesian equities, and is valued just above US$ 500,000".[49] This iShares MSCI Indonesia ETF tracks for 2.16% of its fund the value of the shares of Indofood Sukses Makmur, which is part of the Salim conglomerate.[50] The shares of Indofood Sukses Makmur are tracked by 20 investment funds, five of which belong to BlackRock, according to the advisory and trading service Morningstar.[51]

4.4 Other financial services

Financial services that also profit from the financing instruments of large listed companies such as the Salim conglomerate are accountants, law firms and trust services. For instance, accountants benefit from listed companies that are obliged to publish an annual financial report to shareholders. Furthermore, some consultancies, law firms and even banks provide companies with advice on how to avoid paying taxes. Trusts service companies manage the companies in tax havens. Holding companies of the Salim conglomerate are based in secrecy jurisdictions that are known for facilitating tax avoidance and secrecy, such as First Pacific (listed in Hong Kong) which is domiciled in Bermuda and FTP Finance Ltd, as well as FPC Finance Ltd and FPC Treasury Ltd, are all domiciled in the British Virgin Islands.[52]

Note that many of the above-mentioned financial service companies, i.e. stock markets, investment banks, some investment fund issuers and financial advisors, etc., are themselves listed on the stock market. Consequently, the more shares that are being traded on the stock market, the more profitable the stock market is. And all companies that have shareholders are under pressure to increase profits in order to show financially satisfactory figures that result in share trading, allowing shareholders to make profits.

Box 4 What is an exchange-traded fund (ETF) and why is it risky?

- An ETF is an investment fund that owns particular shares, bonds or other financial instruments (e.g. commodity derivatives), according to the fund managers' described selection. Individual or institutional investors can participate in the fund by buying its shares that are traded on the stock market.
- Index ETFs follow prices of particular shares, bonds and other financial instruments that are part of a pre-designed selection through an index. This means that the value of the ETF is related to prices on the stock markets, without any scrutiny of the real performance of the related companies or products. This is called 'passive investment'.
- Some ETFs do not hold shares, bonds or other financial products selected by the index, but own other securities. For the shareholders of the ETF, the fund manager 'tracks' the value of the index and pay ETF shareholders according to those tracked prices on the stock market. However, the investment returns on the securities that the fund itself holds might be different, following a speculative strategy. If more profit is made with other securities than with those of the index used by the fund, the fund managers can make more profit.
- The total value of assets managed by ETFs worldwide in 2016 was estimated at approximately US$ 3.42 trillion.[53] The risks of financial instability and crisis on the financial markets arrive when panic results from many holders of ETF shares selling at the same time. The fund managers then have to sell the shares they manage in the fund and unwind the specially related financial constructions. This results in falling prices for the shares owned by the ETFs, which spurs more selling and unexpected consequences from speculative strategies with ETF shares, and thus falling prices. Since 2011, the International Monetary Fund (IMF) has already warned[54] about the danger of ETFs and increasing attention is being paid to the risks involved in increasing passive investment.

5 Profits do not benefit agricultural workers and communities

The profit making dynamics of the stock markets and financial markets as described above can have negative effects that impact on parts of the palm oil value chain.

Because palm oil conglomerates that keep controlling or influencing shareholdings of their various own subsidiaries/affiliates/companies, as is the case with the Salim conglomerate, are being financed by many diverse financiers around the world, no single financier (bank or investor) alone has a determining influence. Of course, if a bank were to arrange a multi-billion dollar syndicated loan, it would have a large influence in the continuation and expansion of a company. This could then be linked with the spreading of abusive human rights and environmental malpractices if that particular company were to use such operational practices.[55]

Shareholdings on the stock market and the inclusion of a company's shares or bonds in many different investment funds, such as ETFs, mean that the company is continually being monitored as to whether it is profitable and has risks that could lead to negative financial results. Financial analysts and advisors mainly provide statistics, daily, weekly, monthly or (multi-)annual overviews and strategic analyses about the profits (calculated in various ways), share prices, and dividend payments of a company. If share or bond prices go down and dividends are not paid, shares may be sold off and further price drops may take place. When the share price is low or falling, a company could become a potential target for takeover by another company. Also, in the event of low profitability and low share prices, credit rating agencies can downgrade a company, which can result in banks providing no or fewer loans, because they are too risky, or loans with higher interest rates (meaning that the bank obtains higher returns for the risks it takes). These are the dynamics of the financial markets.

Mainstream financial advisory and analytic instruments do not track the social and environmental damage created by a company and its various subsidiaries or related companies. To keep up profits and produce nice financial figures for financial markets, companies are under constant pressure to bring in short-term profits at all costs and to increase returns. This pressure leads to a prioritisation of the benefits for financial stakeholders: the short-term shareholder value comes first. By externalising social and environmental costs, including the unhealthy and poisonous spraying of palm oil fields, the expelling of communities, deforestation and the burning of peatland to gain free access to land, palm oil companies can maintain profits and company growth. Consequently, the financial markets will continue to buy shares without questioning, or being informed, where the profits come from.

These financial market dynamics result in the weakest links in the palm oil production chain being squeezed and suffering from abusive practices.[56] These include communities being thrown off their traditional land without legal protection, palm oil plantation workers suffering from overwork and low wages resulting in child labour, biodiversity degradation and soil pollution.[57] Many reports by civil society on these abusive practices are not included in the financial analyses and reports of the palm oil companies (see below). The question is: why not? In the long term, the negative environmental consequences can undermine profitability, and abusive labour practices can result in fines or work interruptions, ultimately reducing profits.[58] In a worst case scenario, the subsidiary or the company itself could be forced to stop operations. Then its shares and loans would not longer have any value and become so-called 'stranded assets'.

6 Why do abusive palm oil companies continue to obtain financing?

Some financiers are aware of the abusive and destructive practices, given that civil society groups[59] have been campaigning to alert the financiers, based on cooperation among, and publications by, civil society groups that witness continuing palm oil plantation malpractices on the ground and against communities, as is the case with Indofood[60]. Malpractice complaints have also been raised at the Round Table on Sustainable Palm Oil (RSPO), in which a few banks and financial companies participate or are members.[61] These have occurred in the past when companies have not adhered to the production principles and criteria described in RSPO membership commitments. Through a complaint procedure, a panel[62] decides whether or not the accusations of a breach of RSPO principles and criteria are justified, and whether action needs to be taken.

Some investors and banks have been 'engaging' with abusive palm oil companies and exerting pressure on them to change their practices. But these measures have not ensured that all companies in question change or stop their malpractices. Moreover, it is possible that some large palm oil companies are selling off the most problematic companies within their corporate web. This means that officially, it appears as though they have improved their practices. However, they still are able to obtain supplies from problematic palm oil companies that they do not own.[63] Investors and banks that disinvest face the dilemma of seeing other investors or bankers take their place, which are even less interested in preventing harmful social and environmental impacts. This leaves both local communities and the environment even more vulnerable.

Competitive pressure and globalised financial markets, with freedom on the movement of capital, mean that if one or more financiers leave, others take their place. What is more, companies that do pay better wages, provide healthier work conditions and operate with less harmful environmental practices may be less profitable, and therefore less likely to receive investments or loans.

The problem here is that nearly all the banks and investors are under no legal obligation to take account of negative social and environmental impacts, as long as they do not undermine the financial stability and profitability of the company, the bank or investor (i.e. there is no 'material risk'). The financial reforms following the 2007-2008 financial crisis did not result in new laws stipulating the avoidance of negative human, social and environmental impacts, let alone fostering positive social and environmental outcomes.

In contrast, the normative frameworks developed by the OECD (the OECD Guidelines for Multinational Corporations) and UN Human Rights Council (UN Guiding Principles on Business and Human Rights, UNGPs) recognise that banks may cause human rights abuses (e.g. related to their own employees), but also that they may contribute to and be directly linked to human rights abuses committed by their clients. In these situations, the normative frameworks are clear that the banks are responsible for seeking to mitigate the adverse impacts e.g. by using leverage over their client. In some cases, if it is determined that they have contributed to the impact, they are responsible for stopping their contribution and remedying the impact. Note that both of these frameworks (OECD Guidelines and UNGPs) are government-backed and that they are, in fact, binding on governments under international law, expressing governments' expectations on businesses, including banks. The OECD also developed "Key considerations for institutional investors in carrying out due diligence under the OECD Guidelines for Multinational Enterprises".[64] However, in practice, it is especially up to victims and complainants against breaches of these codes to use existing dispute settlement instruments, e.g. OECD 'National Contact Points'. These are not easily accessible or effective, and costly, for remedial action.

7 Solutions through new regulations?

Since the many voluntary or semi-official measures (see above 6.) have not prevented the financing of companies with destructive and abusive practices, as is the case in the Indonesian palm oil sector in general and the Salim conglomerate in particular, the other option is to influence the financiers' decision-making is through regulation via laws, i.e. legally obliged conditions on how financiers decide to give loans, issue or hold bonds and shares, and manage funds. Only recently is this legal option increasingly being considered.

7.1 National regulation on finance to prevent social and environmental damage

Some countries have started to introduce legislation to push financiers to act on environmental or social impacts. In July 2017, the Indonesian Financial Services Authority (OJK) published a regulation that requires all financiers and listed companies to develop a sustainable finance action plan, and to report on this every year.[65] China has a law in place that forces banks to ensure that during the period of the loan, corporate borrowers do not create more air pollution than allowed under current legal stipulations.[66] In Brazil, banks must undertake to avoid the negative social and environmental impacts of the businesses they finance, and in Peru, banks must undertake sustainability risk assessments.[67]

However, even if a country such as Indonesia introduces sustainable finance regulations, or a region like the EU adopts sustainable finance regulations[68] so that diverse financiers are required to asses the risk of negative social and environmental effects by the companies and activities that they finance, this would still allow banks and investors from other countries and regions to finance companies with abusive social and environmental practices. As described above in the case of the Salim conglomerate, the financiers and their subsidiaries (creditors and investors) of palm oil companies come from all over the world, and one financier can easily replace another.

These financiers enjoy the freedom of capital movement as a result of a range of trade and investment agreements which guarantee such free capital flows. At the same time, these trade and investment agreements liberalise financial services by opening up financial markets to foreign financial service investments and restricting authorities from taking measures and regulations that are considered to be too protective of the domestic financial industry.[69] One such measure is the so-called 'non-discrimination' principle, whereby no distinctions are to be made between domestic and foreign financial services, or amongst foreign financial services. This means that authorities cannot make distinctions as to whether their domestic or particular foreign financial services have better sustainability practices in place than other foreign financial services. When the investment protection rules of the investment or trade agreements are not respected, dispute settlement systems[70] can be used to enable investors to obtain compensation in cases of wrongdoing. However, the victims of abusive practices by foreign investors have no access to such treaty-based dispute settlement systems that transcend the national courts.

7.2 Where can international regulatory initiatives be taken?

To ensure a level playing field so that all financial stakeholders in the globalised financial world have the same obligations to take social and environmental impacts into account , globally enforced international initiatives and international financial regulation should be in place. However, no global financial regulatory forum exists!

At international level, there are standard-setting bodies for banks (the Basel Committee on Banking Supervision[71]), the securities sector, stock markets and other financial markets (the International Organization of Securities Commissions (IOSCO)[72]), and pension funds (the International Organisation of Pension Supervisors (IOPS)[73]). The members of these organisations are mostly national supervisors and regulators in these sectors of the member countries.

Since the 2007-2008 financial crisis, the G20 has consisted of countries with more advanced economies. Their finance ministers, in particular, form a multilateral platform to agree in principle on financial sector reforms. In practice, it has been left to the Financial Stability Board (FSB) and the above-mentioned standard-setting bodies, as well as the IMF and the OECD (the richer countries' cooperation organisation), to work out proposals. The proposals are then agreed upon at meetings of the G20 finance ministers and/or G20 heads of state. However, none of these agreements and standards are enforceable unless they are incorporated into national or EU law. So far, the only laws based on international standards relate to stabilising the financial system and sector to avoid another crisis, or at least to avoid taxpayer money being used to save banks and prevent the financial system from collapsing. The G20 has had a 'green finance' working group since 2016, which has looked into how the financial sector can have a positive impact on climate change, without proposing regulatory measures.

7.3 International discussions about sustainable finance

More and more discussions and initiatives are now taking place that expose how the financial sector itself is affected by climate change.[74] This is because the value of its assets can dwindle, e.g. when climate change destroys agribusiness harvests in which the financial sector has invested. Moreover, it has become increasingly clear that financing and investments in industries that emit CO2 emissions due to forest fires or extracting fossil fuels stand in contrast to the energy transition needed to meet the Paris climate commitments. In addition, the UN Sustainable Development Goals that promote better livelihoods have been agreed upon and will need more finance that is private. This means that there is increasing awareness of the need for 'sustainable finance' that promotes, or at the very least, does not harm the climate, the environment, societies and human rights. This awareness is also referred to as taking account for environment, social and governance (ESG) risks and factors. However, no international standards have yet been developed or agreed upon to prohibit banks and investors or other financiers from financing activities that seriously harm human rights, the environment and the climate.

One reason for the slow progress here is that the financial sector argues against further or stricter regulations and measures. The financial sector argues that this would increase its responsibility and costs. At the national and EU level, but also at international level, financial and corporate lobbies are calling for no further regulation, and, in some instances, are actually arguing for deregulation. The victims of abusive human rights and environmental practices by palm oil corporations, accompanied by supportive civil society organisations, would like the financial sector to pro-actively contribute to more sustainable economies and societies. They have voiced their demands during national and EU financial legislative processes and at the G20 level, but have been ignored by political decision-makers who often only engage with the financial industry.[75] However, civil society will and should continue to advocate stopping the financing of harmful corporate activities at above mentioned international financial fora dealing with the private financial sector.

8. Conclusions

Large palm oil companies with complex corporate structures, as illustrated by the Salim conglomerate, have access to a global network of diverse financing channels. These range from various kinds of loans provided by a large number of different banks, to shareholdings and bondholdings by instutional investors and (passive) investment funds operated in many jurisdictions around the world. In order to prevent too many financial risks of non-payment being carried, lenders and investors only allocate a relatively small amount of money to different parts of the Salim conglomerate. In this way, most investors only hold a small percentage of the total shares, and therefore have little shareholding influence over the management and operation of the company. Moreover, in the case of the Salim conglomerate, the majority of shares are held within the conglomerate through an intra-corporate ownership structure, ensuring that CEO Anthoni Salim retains control and the majority of profits. The complex relationships within the Salim conglomerate might not always be visible to investors, which diminishes the accountability of the subsidiaries. Nevertheless, increasing shareholder value through increasing profitability or other measures is a constant concern for share-issuing companies, as this influences the potential for future share issuance or bond issuance, and even accessibility to loans.

One of the main problems here is that financial analysts and financiers, such as lenders and shareholders, do not provide or search for information regarding social and environmental impacts. Nor have financiers been willing to ensure that the companies they finance guarantee unabusive social and environmental impacts on the ground (even if they have some have policies or guidelines to that extent). This increases the risks for people on the ground, since each of the financiers might find it too costly to do a social and environmental impact assessment. Due the complex financial structures of financiers and the Salim conglomerate, it is difficult for one financier to achieve major changes or to be pressured to do so. However, the lead arrangers of syndicated loans and the asset managers of passive investment funds still have the financial leverage to require changes and stop abusive behaviour or face the withholding of financing.

As financiers are based in many different countries and jurisdictions around the world, the regulation of financiers of palm oil companies operating in Indonesia by Indonesian financial authorities alone will not necessarily re-orient all financing towards more sustainable practices. Even regulation in the countries in which the financiers are headquartered is insufficient, since international financiers operate from many other countries through their subsidiaries. Moreover, if one (foreign) financier withdraws, it can easily be replaced by another international financier due to freedom of capital movement and financial services, as well as international share and bond trading. International competition pressure among financiers might even prevent withdrawal by financiers from financing palm oil companies with abusive practices.

The financial reforms that were agreed upon in principle at international level following the 2007-2008 financial crisis did not include obligations that financiers prevent negative human rights, as well as negative social, climate and environmental impacts. However, in order to ensure that all financiers around the world increase their responsibility for the impacts of their financing, international financial fora, such as the Group of 20 countries with the richest economies (G20) or the Basel Committee of Banking Supervision, should take action. The need for international regulation exists, and needs involvement and contributions from a wide range of stakeholders (and not just financial players, as is currently the case), so that financiers play a role in stopping harmful corporate practices.

9 Recommendations for discussion

Financiers should:

- Better analyse the corporate structures of the companies in which they invest or lend to.
- Make analyses and risks assessments based on a broader range of information, especially information which goes beyond financial profitability and identifies social and environmental impacts on the ground.
- Express lobby arguments for an international regulatory level playing field for all financiers worldwide to undertake social and environmental (ESG) impact assessments and take these into account in financial decision-making.
- Publish more information about the companies they lend to or invest in, as well as how they asses whether the companies they invest in are breaking laws or engage in abusive social and environmental practices.

Financial legislators, regulators, financial authorities and supervisors should:

- At international level, discuss and develop not only instruments and standards, but also regulatory measures for avoiding negative social and environmental impacts from lending and investment in shares, bonds and funds.
- Hold consultations and dialogues not only with the financial sector, but also with communities and civil society.
- Evaluate voluntary best-practice initiatives, as well as standards for their enforcement and impact, based on which international decisions should be made to introduce legally binding national and EU rules that enforce and strengthen best practices.

Civil society should:

- Expose the difficulties involved in pressuring financiers to using their leverage to stop corporate social and environmental malpractices.
- Expose why financiers are not taking responsibility for how they contribute to malpractices.
- Demonstrate how complex corporate and financial structures, investment strategies and passive investment, continue to almost automatically finance malpractices, and demonstrate how this can be stopped by regulatory measures related to the financial sector, e.g. by legally compulsory social and environmental impact and risk assessments, as well as to corporations in general, e.g forbidding corporate structures that are too complex.
- Raise voices at international financial fora, such as the G20 Finance Ministers meeting or the Basel Committee of Banking Supervision, to demand a level playing field so that all financiers worldwide play a role in stopping harmful corporate practices.

(Endnotes)

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16 See also: Chain Reaction Research, Idem, p. 4.

17 Ibidem, p.4.

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Colophon

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With thanks to: Merel Vandermark, Edi Sutrisno and Rahmawati Retno Winarni from TuK INDONESIA, SOMO colleagues and different respondents.
Layout: Frans Schupp
Cover photos: Rainforest Action Network, Daniel Pache
ISBN: 978-94-6207-126-1

This publication has been produced in collaboration with TuK INDONESIA and with financing from the Dutch Ministry of Foreign Affairs. The content of this publication is the full responsibility of SOMO and does not necessarily represent the position of the Ministry of Foreign Affairs.

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