How Banks And Investors Are Fueling A Global Biodiversity Crisis

Laurel Sutherlin ~ Rainforest Action Network

04-28-2024 ~ *Commercial financial flows to the forest-risk commodity sectors are driving the majority of tropical deforestation.*

In a global context where tropical rainforests play a critical role in biodiversity conservation and climate regulation, these ecosystems are severely threatened by expanding agribusiness and logging activities. This poses significant risks to the environment, wildlife, and communities dependent on rainforests.

Against the backdrop of escalating climate change impacts, urgent action is needed to prevent the collapse of these vital ecosystems and address the injustices faced by Indigenous and local communities and workers within the agricultural sector.

The ratification of the UN Global Biodiversity Framework in December 2022 marked a pivotal moment, signaling a collective commitment by 196 countries to reverse the decline in global biodiversity. However, financial institutions have historically failed to address their role in exacerbating the biodiversity crisis.

A 2023 report by Forests and Finance—a coalition of campaign, grassroots and research organizations that includes TuK Indonesia, Profundo, Amazon Watch, Repórter Brasil, BankTrack, Sahabat Alam Malaysia, Friends of the Earth U.S., and my organization, Rainforest Action Network—sheds light on the extensive financial support provided to sectors responsible for tropical deforestation, including beef, palm oil, pulp and paper, rubber, soy, and timber. "From January 2016 to September 2023, banks provided at least $307 billion in credit to these operations," states the report, while institutional investors held approximately $38 billion in related shares and bonds.

Despite fluctuations in financial flows, there has been no discernible downward trend in financing forest-risk commodity production. Alarmingly, the analysis of more than 100 financial institutions' policies in 2023 revealed grossly inadequate safeguards against deforestation and its associated social and environmental impacts. The average policy score was just 17 percent, according to the report.

Entities like JBS, Cargill, Royal Golden Eagle, and Sinar Mas Group exemplify the egregious behaviors tolerated and enabled by banks and investors.

Demands to Correct a Systemic Issue
The report by Forests and Finance urged governments and financial institutions to adopt and enact five principles:

1. Halt and reverse biodiversity loss

2. Uphold and prioritize the rights of Indigenous peoples, women, and local communities

3. Facilitate a just transition

4. Safeguard ecosystem integrity

5. Harmonize institutional objectives across sectors, issues, and instruments

Immediate action is crucial to combat the climate and biodiversity crises. The report urges financial institutions to align their activities with sustainability goals, enact robust environmental and social policies, and ensure transparency and accountability. By holding the financial sector accountable for its role in enabling social and environmental harm, we can work toward preserving biodiversity and mitigating the impacts of climate change for current and future generations.

Notable Progress
The Forests and Finance report highlights the significant progress of tropical

forest countries and key import and financial jurisdictions in promoting sustainable financial practices and combating deforestation. Brazil, Indonesia, Malaysia, the United States, and the European Union have all taken notable steps toward integrating environmental, social, and governance (ESG) considerations into their financial systems.

Brazil stands out for excluding industrial livestock activities from sustainable sovereign bonds and for being the first country to commit to integrating the International Sustainability Standards Board's IFRS Sustainability Disclosure Standards into its regulatory framework by 2026. Implementing these standards will help bolster Brazilian capital markets by amplifying transparency in sustainability-related risks and opportunities. This, in turn, will ensure that companies attract capital and foster global investments that are aligned to meeting the goals of nature protection and sustainable development.

Another initiative that supports sustainability is the implementation of green taxonomies. These taxonomies are meant to simplify guidelines regarding activities that support decarbonization objectives, including efforts to curtail deforestation and environmental degradation. This can bolster financiers' confidence in investing in projects that move the needle toward a low-carbon and climate-resilient economy.

Indonesia introduced its Green Taxonomy in January 2022 to expedite financing for sustainable sectors. "Indonesia's joint targets under the Just Energy Transition Partnership (JETP) include capping power sector emissions to 290 MT by 2030 and reaching net zero by 2050," reported Luthfyana Kartika Larasati and Tiza Mafira of the Climate Policy Initiative, an independent nonprofit research group based in San Francisco, in October 2023.

"To achieve these [targets], phasing out coal-fired power plants while accelerating the deployment of renewable energy sources is necessary. As financiers are now reluctant to finance coal, a transition taxonomy defines measurable parameters within which coal investment is allowed in order to facilitate early coal decommissioning," wrote Larasati and Mafira.

Malaysia implemented the Value-based Intermediation Financing and Investment Impact Assessment Framework (VBIAF) in November 2019 and issued the Climate Change and Principle-based Taxonomy in 2021 to guide Islamic financial institutions.

Meanwhile, a March 2024 Securities and Exchange Commission (SEC) climate disclosure ruling seems to be a step in the right direction toward the U.S. managing its climate risk, even though the move remains inadequate to effectively protect the world's forests. On the procurement side, the new EU Deforestation Regulation, expected to take effect on December 30, 2024, provides a potentially powerful new tool for achieving supply chain traceability and transparency.

The European Union also approved new EU Taxonomy criteria in 2023 focusing on biodiversity protection and ecosystem restoration, despite criticism that it judged harmful sectors like forestry and bioenergy to be environmentally sustainable economic activities.

Forest-Risk Credit Trends

The report revealed that at least $307 billion in credit had been directed to forest-risk sectors from 2016 to September 2023. The beef sector dominated South America, while palm oil led in Southeast Asia and rubber in Central and West Africa. Primary beneficiaries included agro-commodity traders and companies with significant environmental and social violations.

While progress has been made, heightened attention and enhanced due diligence procedures are needed to address associated ESG risks and promote sustainable financial practices to combat deforestation and environmental degradation.

Big corporations launched the Taskforce for Nature-related Financial Disclosures (TNFD) in June 2021 to guide businesses in reporting nature-related dependencies. However, civil society organizations have repeatedly raised concerns about the task force's development, composition, approach, and potential for greenwashing.

Regional Analysis of Credit Flows

The analysis of regional credit flow and investment trends in forest-risk commodity sectors across South America, Southeast Asia, and Central and West Africa revealed significant financial flows and investments contributing to deforestation and environmental degradation.

In South America, the beef sector dominated forest-risk credit flows, followed by soy, and pulp and paper, with Banco do Brasil emerging as a significant creditor. Infamous beneficiaries included companies like Suzano and Marfrig.

In Southeast Asia, palm oil was the dominant recipient of forest-risk credit, followed by pulp, paper, and rubber. Indonesian banks played a significant role as financiers, with recipients including tycoon-owned conglomerates Sinar Mas Group (SME) and Royal Golden Eagle (RGE). Concerns over governance risks and greenwashing practices persisted despite reductions in primary forest loss.

Central and West Africa saw the rubber sector attracting the majority of forest-risk credit, with Chinese companies emerging as primary financiers. The Chinese Sinochem Group was the largest recipient of the credit, followed by China Forestry Group and Wilmar.

Despite fluctuations in credit flows, challenges remain in corporate structures and accountability. For instance, companies like "SMG [and] RGE… have established complex corporate structures that mask ownership relations. This poses serious governance risks and facilitates leakage and greenwashing. They have all been linked to egregious social and environmental harms for decades," states the report.

Forest-Risk Investments

Investments in activities likely to damage forests globally amounted to more than $38 billion, with palm oil receiving the most significant share, followed by pulp and paper. Major institutional investors like BlackRock and Vanguard increased their stakes in forest-risk commodity companies, while others maintained or reduced their investments.

In South America, investments were predominantly allocated to the pulp and paper sector, with Suzano being the highest recipient. Southeast Asia saw the most investment in palm oil companies, with Sime Darby Plantations and IOI Group among the leading recipients.

In Central and West Africa, palm oil companies also received the majority of investments, with Sumitomo Forestry and Itochu being prominent recipients.

Forest-Risk Policy Assessments

Forests and Finance's assessment methodology evaluated financial institutions' adherence to 38 criteria to avoid contributing to deforestation and associated

ESG issues.

These criteria are categorized into environmental, social, and governance requirements, covering commitments to zero deforestation, respect for land rights, anti-corruption measures, and more.

Forest-risk policy assessments of more than 100 financial institutions revealed a lack of robust policies, with an average score of only 17 percent. Despite incremental improvements since 2016, vague language, unclear timeframes, and loopholes persisted, leading to continued facilitation of human rights violations and deforestation.

The analysis underscores the urgent need for heightened attention, enhanced due diligence, and more stringent policies to address associated environmental, social, and governance risks. It also highlights the need to promote sustainable financial practices in combating deforestation and ecological degradation in tropical forest regions.

Policies by Sector
Regarding sectoral policies, financial institutions exhibit the most robust policies for palm oil, followed closely by timber, and pulp and paper. However, the average scores for these sectors remain relatively low, indicating room for improvement despite sustained civil society campaigns and certification schemes' existence.

The assessment of forest-risk bank policies reveals that, on average, the largest 30 forest-risk banks have higher overall policy scores than the largest forest-risk investors. However, the scores across the board are still low, reflecting minimal policy coverage across ESG criteria.

While some banks like CIMB and BNP Paribas scored relatively higher, others like Banco do Brasil and ICBC had notably low scores, indicating inadequate policies to address harmful activities.

Four Corporations Leading Destruction
The report highlights four corporations—Cargill, JBS, Royal Golden Eagle, and Sinar Mas Group—that continue to receive significant credit and investment from financial institutions despite having egregious environmental and social track records. Cargill, in particular, has received substantial credit for its soy

operations in tropical forest regions despite having a legacy of human rights abuses and environmental degradation.

Cargill

Cargill's expansion into the Brazilian Amazon and the Cerrado savanna has raised concerns due to decades of deforestation, violations of Indigenouspeoples' rights, and failures to meet deforestation commitments. Civil society campaigns, such as Burning Legacy, have aimed to hold Cargill accountable for its practices, documenting evidence of human rights abuses and deforestation in its supply chain.

Despite making commitments to ensure zero deforestation by 2020, Cargill has failed to meet its goals and has faced allegations of land grabbing and violations of Free, Prior, and Informed Consent (FPIC) rights.

The report also discusses the implications of the financialization of land and the role of the financial sector in exacerbating soy-driven deforestation through land speculation. It evaluates the policies of banks financing Cargill, revealing low scores and loopholes that weaken their effectiveness in preventing harm in forest-risk sectors.

JBS

The report delves into the multifaceted issues surrounding JBS, the Brazilian meat giant, and its impact on the Amazon rainforest, climate change, and local communities. Financed by major banks from Brazil, the United States, Europe, and Japan, JBS has received substantial credit and investment despite its documented history of harmful business practices. Since 2019, banks have provided more than $718 million in forest-risk beef credit to JBS, while investors held $667 million in bonds and shares as of September 2023.

JBS's operations in the Brazilian Amazon have devastating consequences for forests, biodiversity, and Indigenous and traditional communities. The company's practices include bribery, corruption, price fixing, forced labor and labor abuses, forest destruction, land grabbing, and contribution to climate change. Despite JBS's high-profile pledge to achieve net-zero emissions by 2040, independent research suggests that the company lacks a credible decarbonization plan, leading to allegations of greenwashing.

The exploitation of people and forests in the Amazon is a systemic issue linked to JBS. Between 2008 and 2020, the company's involvement in deforestation extended to approximately 200,000 hectares in its direct supply chain and 1.5 million hectares indirectly. Despite agreements to clean up its supply chain, JBS has failed to ensure its products are free from deforestation and forced labor, as evidenced by ongoing violations.

The assessment of JBS policies reveals concerning scores, indicating inadequate measures to prevent environmental harm and protect human rights. While some banks like Barclays scored relatively higher, others like Bradesco and BTG Pactual had alarmingly low scores, raising questions about their commitment to addressing crucial issues like deforestation and climate change.

The communities affected by these actions are now holding financial institutions supporting companies like JBS responsible for the environmental damage. In April 2024, the Parakanã people met with the Brazilian Development Bank (BNDES) to ask for reparation for the devastation of their territory, including by JBS suppliers. The Brazilian bank holds 20 percent of the shares of JBS and is therefore considered co-responsible for the impacts.

Royal Golden Eagle Group

The report also reveals mounting evidence that the multibillion-dollar Royal Golden Eagle Group (RGE), which says on its website "manages a group of world-class companies specializing in resource-based manufacturing," operates numerous "shadow companies" and complex offshore ownership schemes to hide their destruction of forests across Indonesia. Banks have poured more than $4.5 billion into forest-risk pulp and paper-attributable loans and underwriting services for RGE's operations between 2019 and 2023.

However, none of the financial institutions assessed have adequate policies to mitigate the negative impacts. Scores for RGE's top creditors range from 1 percent to 24 percent, indicating a lack of comprehensive policy coverage regarding forest-risk commodity sectors.

Sinar Mas Group

Sinar Mas Group (SMG), Indonesia's largest conglomerate, has attracted substantial financing, receiving more than $20.3 billion in credit since 2019. Its palm oil division alone obtained $3.7 billion, primarily from Indonesian and Malaysian banks, between 2019 and September 2023. Despite this financial backing, SMG faces accusations of human rights abuses, massive greenhouse gas emissions, and large-scale deforestation, mainly through its pulp and paper division, Asia Pulp and Paper (APP).

The destruction of the Rawa Singkil Wildlife Reserve by illegal palm oil plantations linked to SMG's operations poses a significant concern, threatening biodiversity and local communities' well-being within the Leuser Ecosystem. Despite documented evidence, SMG and its subsidiaries have failed to address these issues adequately, raising questions about their commitment to sustainability.

The report evaluates the policies of banks and investors financing SMG, revealing a spectrum of approaches. Malaysian banks CIMB and Maybank and Dutch bank Rabobank exhibit more robust policies, scoring highest for the palm oil sector. However, Indonesian banks such as Bank Panin, BRI, and Japanese bank MUFG have notably weaker policies, indicating insufficient measures to address environmental and social risks.

What Governments and Financial Institutions Can Do
The report underscores the urgent need for financial institutions to adopt robust policies and due diligence measures to address environmental and social risks associated with companies like JBS and RGE. Failure to do so perpetuates ecological destruction and human rights abuses and exposes banks and investors to significant financial and reputational risks.

Critically, the report also advocates for governments to step in and mandate financial sector regulation necessary to safeguard society and the ecosystems we depend on, consistent with international public policy goals. This is a problem that ultimately demands stronger, more systemic interventions. These could include, for example, prohibiting the allocation of capital to certain sectors or corporations driving ecosystem destruction and legislating for meaningful sanctions against financial institutions that fail to align their lending and investment accordingly.

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