Sustainable Finance in Singapore, Indonesia and Malaysia: A review of financiers’ ESG practices, disclosure standards and regulations
Purpose of this report:

• First step in assessing and addressing the gaps between domestic financial practices and the processes needed to contribute to a sustainable economy.

• Aims to support leading financial institutions and regulators from Singapore, Indonesia and Malaysia in understanding the rationale for taking part in the transition and the steps necessary to do so.

• Uses forest risk commodity production as a central case study in setting out the more general argument for financial institutions to adopt ESG practices.
Integration of ESG: where do regional banks stand?
Regional banks are exposed to forest risk commodity companies

Agriculture, wood and wood products as a proportion of bank credit (2014)
- Bank Mandiri: 12.3%
- Bank Rakyat Indonesia: 9.1%
- CIMB: 3.4%
- RHB Capital Berhad: 3.6%
- OCBC: 4.2%

Notable relationships:
- Golden Agri-Resources
- Bumitama Agri
- Indah Kiat Pulp and Paper
- Pabrik Kertas Tijwi Kimia
- BW Plantation
- Indofood Agri Resources
- Indah Kiat Pulp and Paper
- Pabrik Kertas Tijwi Kimia
- Genting Plantation
- Wilmar International
- Bumitama Agri
- Wilmar International
- Astra Agro Lestari
- Bumitama Agri
- Wilmar International
- Fajar Surya Wisesa
Yet they are very slow to integrate ESG compared to international good practice (1)

**Is there a high level statement on sustainable lending?**
There were very few statements of intent from domestic banks. All three were from Indonesian banks.

- **DOMESTIC %**
  - Number: 17%
  - Total: 100%

**Does client approval include an ESG screen for factors other than Sharia?**
Almost all the domestic banks have Islamic subsidiaries that operate ethical screens, however, broader ESG factors were rarely considered.

- **GLOBAL %**
  - Number: 17%
  - Total: 100%

**Is ESG used as a tool in credit processes?**
The lack of consideration of ESG in credit likely indicates unmanaged risks.

- Number: 22%
- Total: 100%
Yet they are very slow to integrate ESG compared to international good practice (2)

**Is there disclosure of an ESG policy relating to forest risk commodities?**
All of the global banks have forest risk commodity related policies. Only one domestic bank had a policy specific to palm oil.

DOMESTIC %
- 6%
- 100%

**Is there disclosure of training on ESG?**
Although most of the domestic banks provide disclosure on human capital management, there was essentially no disclosure on training for ESG issues.

GLOBAL %
- 0%
- 100%

**Is the bank a member of relevant multi-stakeholder initiatives?**
The global banks are all members of at least three of the four multi-stakeholder initiatives reviewed.

- 6%
- 100%
Regional banks have dominant shareholders who can support the move to integrate ESG (1)
Regional banks have dominant shareholders who can support the move to integrate ESG (2)
Recommendations to address the current lack of ESG Integration

**BANKS**
- Develop an ESG strategy and implementation framework including sector policies. Refer to WWF *ESG Integration for Banks: A Guide to Starting Implementation*
- Implement, monitor and report on the ESG strategy.
- Join multi-stakeholder initiatives and other banking initiatives such as the Banking Environment Initiative (BEI) or Equator Principles.
- Encourage and support national banking associations to create voluntary sustainable finance guidelines.
- Islamic finance councils may wish to consider whether there is scope to include environmental factors.

**BANKING REGULATORS**
- Produce national guidelines for banks to support integration of environmental and social risks into credit evaluation processes.
- Support banks through training and capacity-building programmes.
- Introduce reporting standards to increase bank transparency on management of environmental and social risks in portfolios.
Adoption of ESG practices: where do regional investors stand?
Regional investors are invested in forest risk commodity companies

<table>
<thead>
<tr>
<th>Company</th>
<th>Exposure (US$ millions)</th>
<th>Notable Holdings</th>
</tr>
</thead>
<tbody>
<tr>
<td>EPF</td>
<td>5,843</td>
<td>Genting Plantations, United Plantations, Sime Darby, Kuala Lumpur Kepong, IJM Plantations</td>
</tr>
<tr>
<td>KWAP</td>
<td>1,633</td>
<td>Felda Global Venture, Genting Plantations</td>
</tr>
<tr>
<td>PNB</td>
<td>9,948</td>
<td>Sime Darby, Felda Global Venture</td>
</tr>
<tr>
<td>TABUNG HAJI</td>
<td>781</td>
<td>TH Plantations, Felda Global Venture</td>
</tr>
<tr>
<td>TEMASEK</td>
<td>2,086</td>
<td>Olam International, CTP Holdings</td>
</tr>
</tbody>
</table>
Significant gaps between regional investors and international good practice (1)

**Does the investor provide disclosure of its holdings?**
In many markets transparency has increased accountability to beneficiaries.

- **Domestic %**: 0%
- **International %**: 100%

**Does the investor disclose its corporate governance policy?**
A corporate governance policy allows a consistent, evidence-based approach to discharging ownership responsibilities.

- **Domestic %**: 17%
- **International %**: 100%

**If the corporate governance policy is published, does it include specific reference to ESG?**
The absence of disclosure on ESG-related engagement suggests domestic funds are not considering material ESG risks.

- **Domestic %**: 8%
- **International %**: 100%
Significant gaps between regional investors and international good practice (2)

**Does the investor specifically allocate funds to sustainability solutions providers?**
Sustainability problems offer many potential equity opportunities and a fast-growing requirement for debt funding. Yet the domestic funds show very little interest in these areas.

- **Domestic %**: 17%
- **International %**: 100%

**Is the investor a member of any relevant international collaborative initiative?**
The domestic funds have not even become signatories to CDP, the major climate initiative, which is free of charge to investors.

- **0%**
- **100%**
Key recommendations for investors and securities market regulators

**INVESTORS**
- Use ESG analysis to identify systemic risks such as climate change and enhance valuation/forecasting.
- Step up active ownership to manage systemic and company risks.
- Engage with portfolio companies, especially forest risk commodity companies, to improve ESG standards.
- Access knowledge and best practices by joining international collaborative initiatives such as PRI, CDP, and ACGA.
- Engage with locally-listed banks within investment portfolios to support their development of ESG practices.

**SECURITIES MARKET REGULATORS**
- Support increased levels of active ownership, including through promotion of stewardship codes for institutional investors.
Disclosure on ESG issues: how do regional companies fare?
Adequate disclosure by palm oil companies is lacking

### PALM OIL

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Question</th>
</tr>
</thead>
<tbody>
<tr>
<td>43%</td>
<td>Does the company disclose policy or equivalent practices relating to priority areas or areas on which it will not plant? This relates to limiting deforestation risk, which is increasingly a customer requirement.</td>
</tr>
<tr>
<td>19%</td>
<td>Does the company disclose time-bound targets to reduce greenhouse gas (GHG) emissions from current operations? Climate change is a risk to the industry, yet very few companies disclose steps to mitigate it.</td>
</tr>
<tr>
<td>19%</td>
<td>Does the company disclose that its product, including externally sourced materials, is produced/harvested in compliance with all applicable local, national and ratified international laws and regulations? Legal production is increasingly a requirement of producer and consumer governments and of buyers and traders.</td>
</tr>
<tr>
<td>52%</td>
<td>Does the company disclose a policy on local and indigenous communities? Many traders and buyers have policies banning exploitation.</td>
</tr>
<tr>
<td>57%</td>
<td>Does the company disclose that it uses International Labour Organization (ILO) standards or provide relevant protections? Securing an adequate labour force is increasingly a challenge – high standards can create a better reputation.</td>
</tr>
</tbody>
</table>
Despite sustainability requirements by key traders impacting route to market

**WILMAR**

**Key elements**
- No development of HCV forests or High Carbon Stocks (HCS) areas
- No development on peat regardless of depth
- No exploitation of people and local communities

**Scope**
“All Wilmar operations worldwide” & “All third-party suppliers”

**Timeline**
“Effective immediately, Wilmar will not engage in development of HCS, HCV, or peat, nor knowingly source from suppliers engaged in development of HCS, HCV, or peat”

**CARGILL**

**Key elements**
- No deforestation of HCV land
- No development on peat
- No exploitation of rights of indigenous peoples and local communities

**Scope**
“All palm oil and palm products that Cargill produces, trades or processes”

**Timeline**
“We will publish annual time-bound implementation plans. (Beginning December 2014)”

**BUNGE**

**Key elements**
- Protect HCV areas
- Protect peat, regardless of depth
- Protect labour standards
- Respect communities

**Scope**
“100 percent of the palm oil and palm derivatives it trades, processes and utilizes in commercial and consumer products worldwide”

**Timeline**
Bunge will collaborate with suppliers and other relevant stakeholders to develop time-bound implementation plans
Disclosure by timber, pulp & paper companies is even worse

**TIMBER, PULP AND PAPER**

- **Does the company disclose policy or equivalent practices relating to preservation of priority areas in line with its activities?**
*This relates to limiting deforestation risk, which is increasingly a customer requirement.*
- **21%**

- **Does the company disclose a policy or take equivalent actions relating to local and indigenous communities in areas from which it sources?**
*Many buyers have policies banning exploitation.*
- **17%**

- **Does the company disclose a due diligence system to manage the risk that its product is not produced/harvested and traded in compliance with all applicable local, national and ratified international laws and regulations?**
*Illegal production is increasingly penalized through legislation by producer and consumer governments.*
- **26%**

- **Does the company disclose a policy on GHG emissions or equivalent practices?**
*Climate change is a risk to the industry, yet very few disclose steps to mitigate it.*
- **11%**

- **Does the company disclose that it uses ILO standards or provide relevant protections?**
*Securing an adequate labour force is increasingly a challenge - high standards can create a better reputation.*
- **11%**
Even on important issues such as Legality which is a requirement for EU, US, Australia market access,

- **EU**
  - **EU Timber Regulation**
    - Businesses must implement systems to prevent illegal timber products from being placed on the EU market. A due diligence system must be in place to assess and minimize risk of illegal wood products entering the supply chain.

- **US**
  - **Lacey Act**
    - Bans trade in illegally sourced wood products. Importers are required to declare country of harvest, genus and species, product’s volume and value.

- **Australia**
  - **Illegal Logging Prohibition Act**
    - Importers and domestic processors have to implement a due diligence system to minimize the risk of importing or processing illegal logged timber.
Recommendations to address disclosure gaps

FOREST RISK COMMODITY COMPANIES

- Create value through improved management practices. Focus on yield improvements that contribute to secure reliable long term supply chains, responsible land-use planning, and optimized use of natural resources; rather than land acquisition or a mining approach (i.e. harvest and go).
- Highlight core sustainability strategy and implementation to banks and investors.
- Enhance disclosure including of material ESG issues as outlined in the 2050 Criteria.
- Become members and undergo certification by multi-stakeholder initiatives such as the RSPO and FSC.

SECURITIES MARKET REGULATORS

- Enhance ESG disclosure through mandatory requirements for listed companies, specifying minimum levels of statistical information, with sector-specific guidelines for high impact sectors.
How WWF can help – Banks and regulators

- Over 20 formal partnerships with banks and other Financial Institutions globally

- China Banking Regulatory Commission - CBRC (Green Credit Guidelines)
How WWF can help – Sector Level Engagement

- Equator Principles
- UNEP-FI
- UN-PRI
- Natural Capital Declaration
- Banking Environment Initiative
- International Integrated Reporting Initiative (IIRC)
How WWF can help – Capacity, research, tools
WWF IN SHORT

+100
WWF is in over 100 countries, on 5 continents

1961
WWF was founded in 1961

+5000
WWF has over 5,000 staff worldwide

+5M
WWF has over 5 million supporters

Photo: © Michel Roggo / WWF-Canon