



FAIR FINANCE ASIA

# THE ASIAN WEB

*Tracking Regional Financial Flows*

Fair Finance Asia is a regional network of Asian civil society organizations that is committed to ensuring that the business decisions and funding strategies of financial institutions in the region respect the social and environmental well-being of the communities in which they operate. Seven countries within the region are a part of the FFA: Cambodia, Japan, India, Indonesia, The Philippines, Thailand and Vietnam

Between 2014 to 2019, financial institutions from Asia, North America, and Europe provided approximately US\$556 billion in loans and underwriting services to some of the largest companies active in four high risk sectors – extractives (oil and gas), energy and power generation, infrastructure, and agribusiness – across Fair Finance Asia (FFA) countries.

While this only captures part of much larger picture, understanding the financial flows towards and between these countries provide a valuable insight on the challenges and opportunities for accelerating and scaling up sustainable finance initiatives in Asia.

## Who are the Main Players?

The study confirms that Japanese financial institutions continue to play an important role as the main providers of credit to some of the largest companies operating in Asia's high risk sectors.

Between 2014-2019, Japanese financial institutions provided a total of US\$365,560 billion in credit to some of the largest companies operating across FFA countries such as Coal India, Chevron, Gazprom, Nestle, Mitr Phol, San Miguel Corporation, and others.

Figure 1: FFA creditor countries of origin

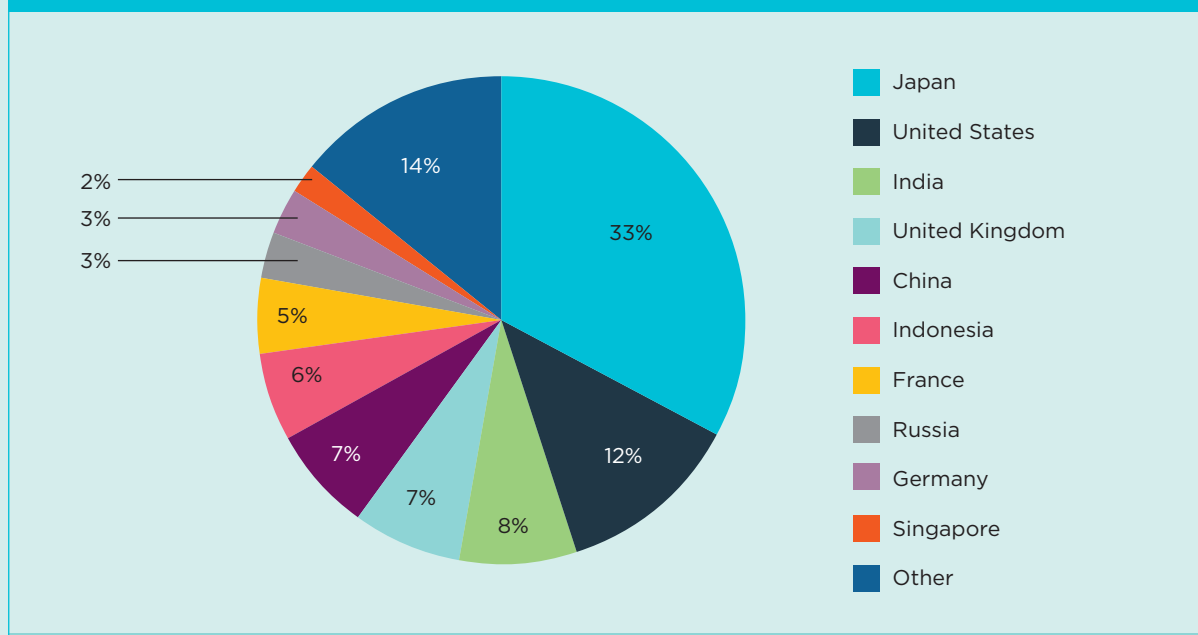
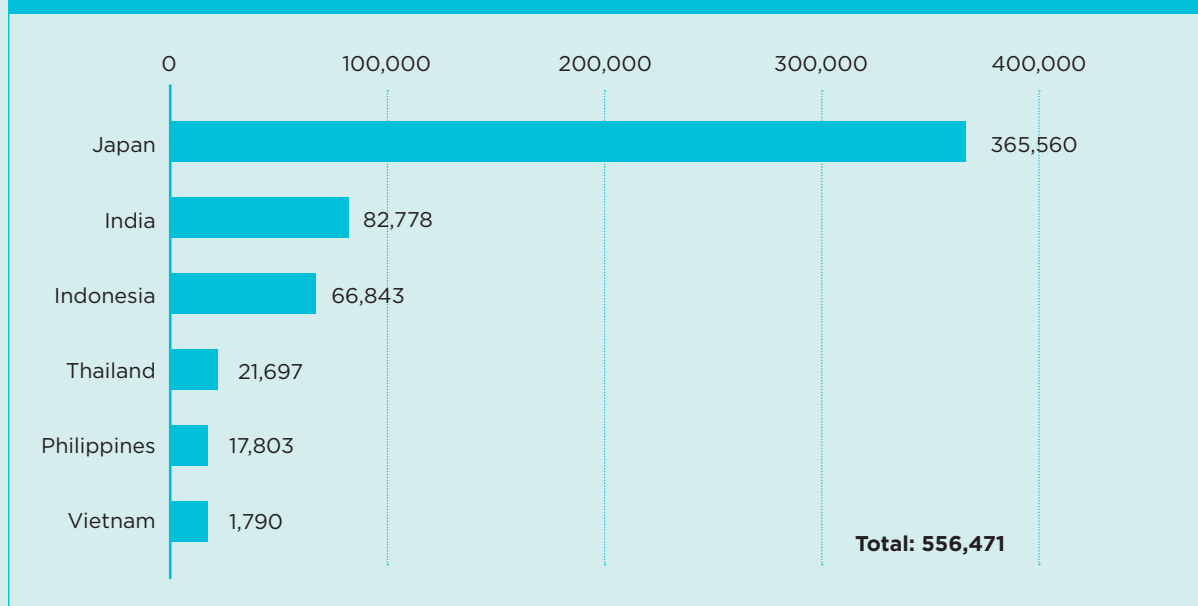


Figure 2: FFA creditor countries of origin and amount in US\$ mln between 2014-2019



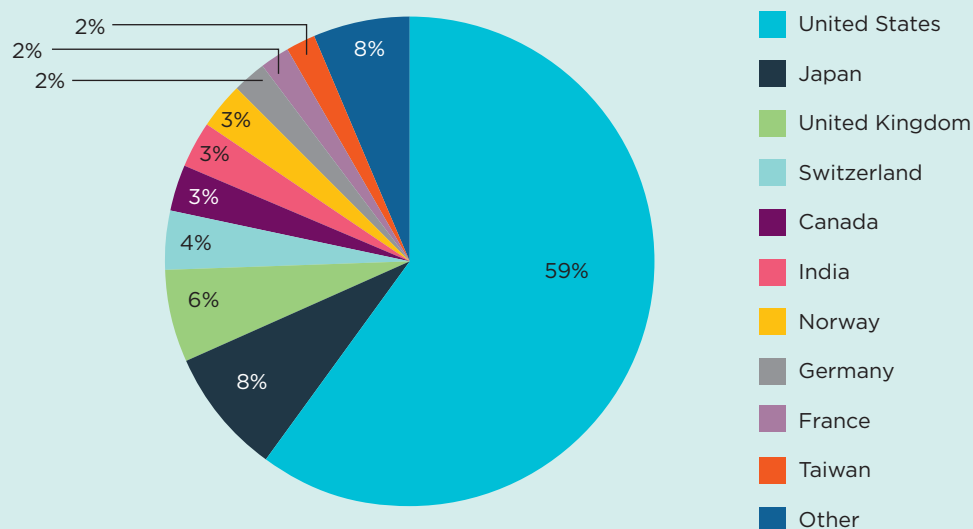
While Japanese financial institutions continue to maintain the lion share of credit relationships with Asia's high risk businesses, other players are also emerging from namely India and Indonesia.

In terms of investments, the study found that financial institutions from the US hold an overall combined investment force of 59% compared to only 8% overall total by Japanese financial institutions.

Figure 3: Matrix of credit flows per country and per sector (2014-2019)

FINANCED COUNTRIES	Agriculture	Fossil Fuels	Infrastructure	Power
Cambodia	Thailand, Vietnam			Japan
India	Thailand, Japan, Philippines	Japan, Philippines	Japan	Japan, Thailand
Indonesia	India, Japan, Philippines, Thailand	India, Japan, Thailand	India, Japan, Thailand	Japan, Thailand
Japan				
Philippines	India, Japan	India, Thailand, Japan, Thailand	Japan	Japan, Thailand
Thailand	Japan, Philippines	India, Japan, Philippines		
Vietnam		India, Japan, Philippines, Thailand	Japan	Japan, Thailand

Figure 4: Country-wise break of Financial institutions investing in selected sectors



## Which Sectors are Receiving the Most Financial Flows?

Based on the findings of this study, power generation and fossil fuel extraction are the two sectors that receive the most significant financial flows from creditors

and investors outside Asia and between the countries in the region itself.

A closer look at the value of the financial flows to power generation – including financial flows to companies operating

Figure 5: Intra-regional credit flows to power generation companies

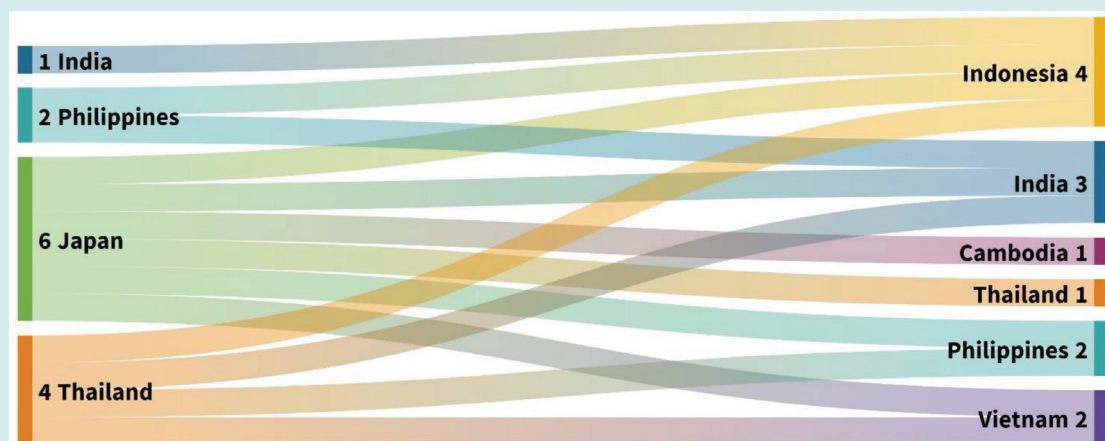
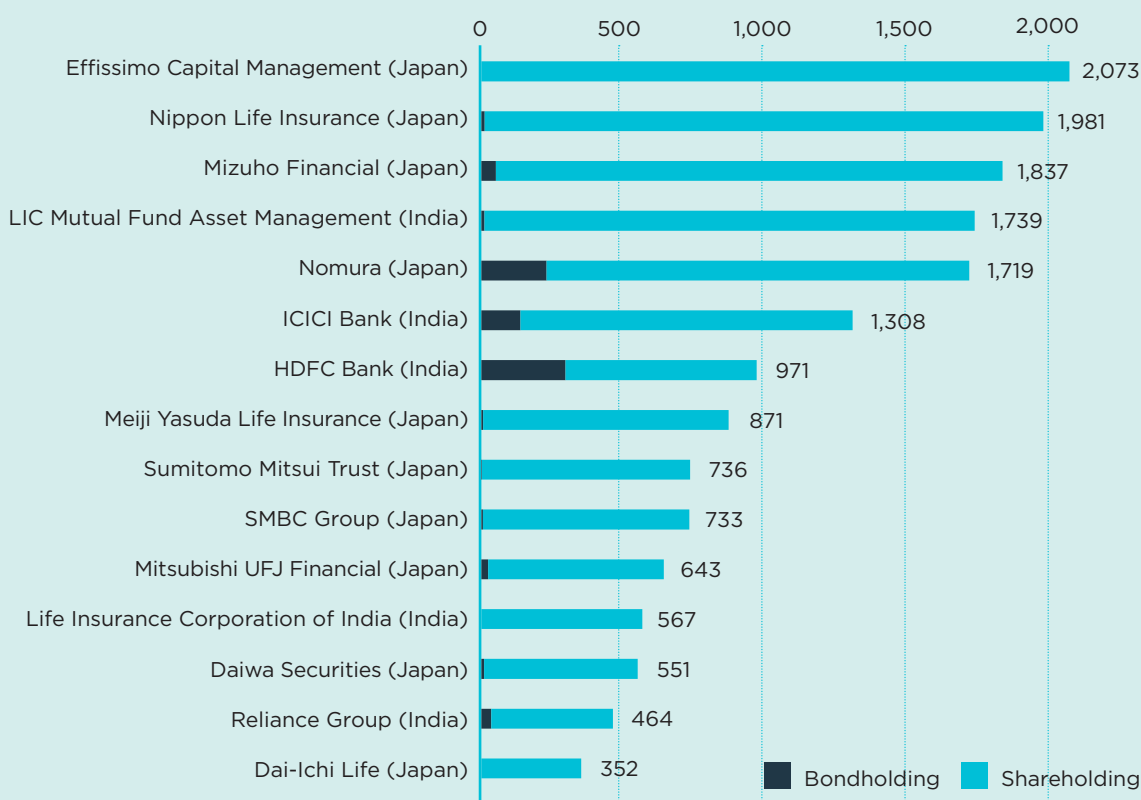
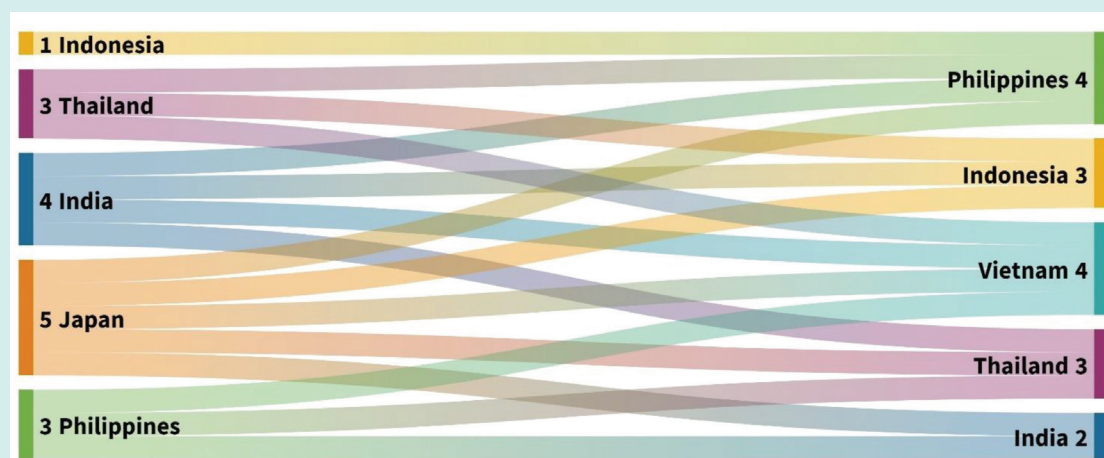


Figure 6: Top 15 FFA power generation investors (2020 February, most recent filings, US\$ mln)



**Figure 7: Intra-regional credit flows to fossil fuel companies (no. of countries provide credit to & no. countries receive credit from, 2014-2019)**



in their own economies – shows that financial institutions from Japan were by far the largest creditors. These Japanese financial institutions provided US\$ 185 billion in loans and underwriting services to the selected companies engaged in power generation, followed by financial institutions from India which provided US\$ 31 billion, and then by Indonesian financial institutions with US\$ 21 billion in loans and underwriting services to power generation companies.

The top 15 power generation investors from FFA countries accounted for 81% of all identified investments towards the selected companies.

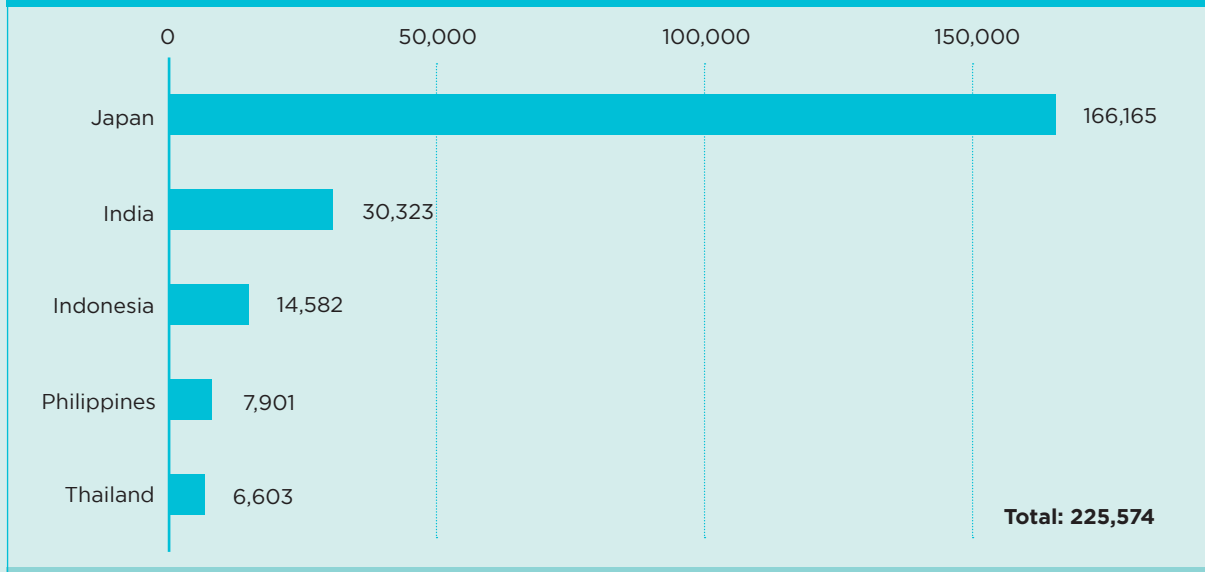
During the period of the study, financial institutions from FFA countries provided US\$ 225 billion in loans and underwriting services to the selected fossil fuel companies. This includes financial flows to companies active in their own economies, as well as to other FFA countries. The figure 5 shows the intra-regional credit flows, i.e. flows from financial institutions from FFA countries, to companies in other FFA countries. Financial institutions from Japan provided the most credit to fossil fuel companies in other FFA countries.

A closer look at the value of the financial flows to fossil fuels – including financial flows to companies operating in their own economies – shows that financial institutions from Japan were by far the largest creditors. These financial institutions provided US\$ 166 billion in loans and underwriting services to the selected companies engaged in fossil fuels. This accounts for just under three quarters of all identified FFA fossil fuel credit (see Figure 8).

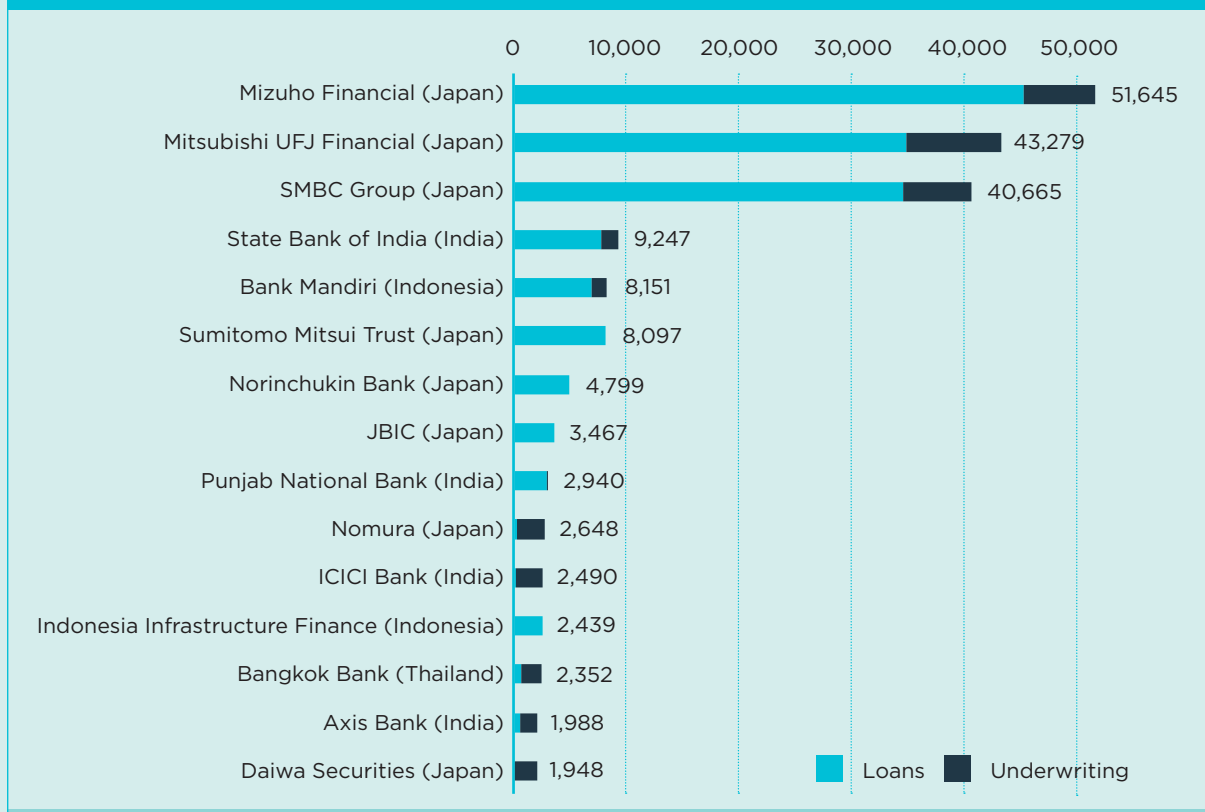
Since Japanese financial institutions were the largest fossil fuel creditors as a whole, it is not surprising that they also rank among the top 3 financial institutions from FFA countries providing loans and underwriting services to the selected companies active in fossil fuels. The largest financier was Japanese Mizuho Financial, which provided US\$ 51.6 billion in the period 2014-2019, followed by Mitsubishi UFJ Financial (US\$ 43.3 billion), and SMBC Group (US\$ 40.7 billion).

Investors from the FFA countries together invested US\$ 71 billion in the selected companies engaged fossil fuels. Figure 10 presents the intra-regional flows and it should be noted that these flows exclude domestic flows.

**Figure 8: FFA fossil fuel creditor countries of origin (2014-2019, US\$ mln)**



**Figure 9: Top 15 FFA fossil fuel creditors (2014-2019, US\$ mln)**



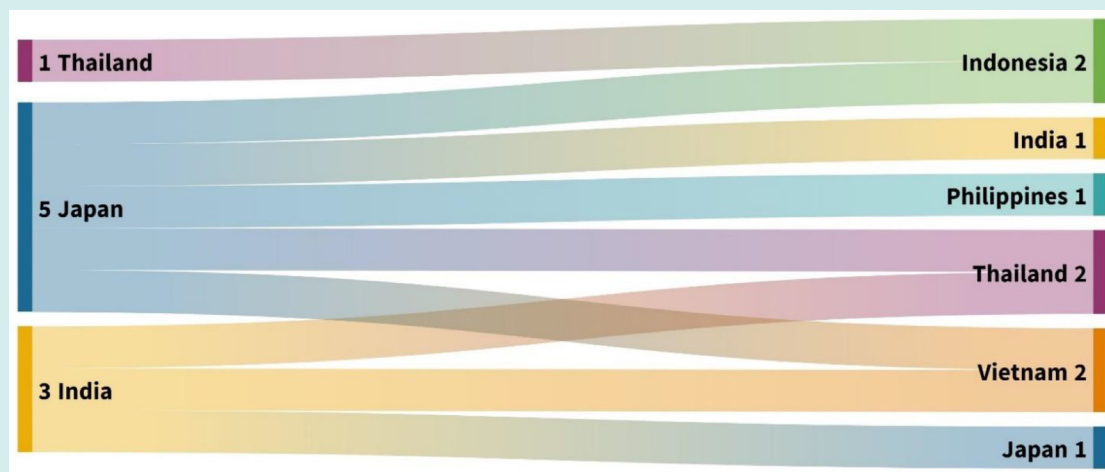
The top 15 investors together invested US\$ 58.6 billion in the bonds and shares of selected companies active in fossil fuels. 10 of the top 15 investors were from

Japan, 3 from India, and the remaining 2 were investors from Thailand. Together the investments of the top 15 investors accounted for 83% of the identified

investments in fossil fuels companies. The largest investors was Sumitomo Mitsui Trust, with investments of US\$ 10.8 billion.

It was followed by Nomura with US\$ 8.6 billion and Life Insurance Corporation of India with US\$ 6.8.

**Figure 10: Intra-regional investment flows to fossil fuel companies (no. of countries invested in & no. countries invested by)**



**Figure 11: Top 15 FFA fossil fuel investors (2020 February, most recent filings, US\$ mln)**

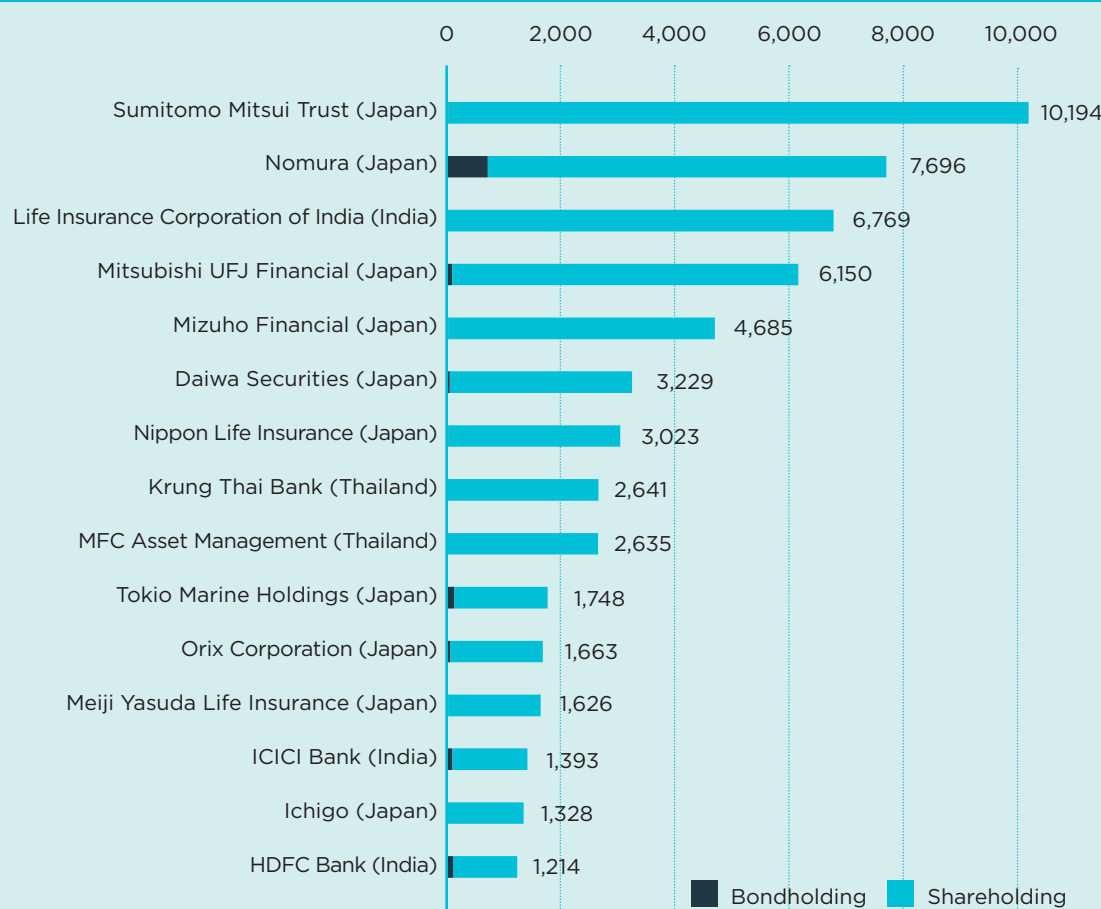


Figure 12: Intra-regional credit flows to agribusiness companies (no. of countries provide credit to & no. countries receive credit from, 2014-2019)

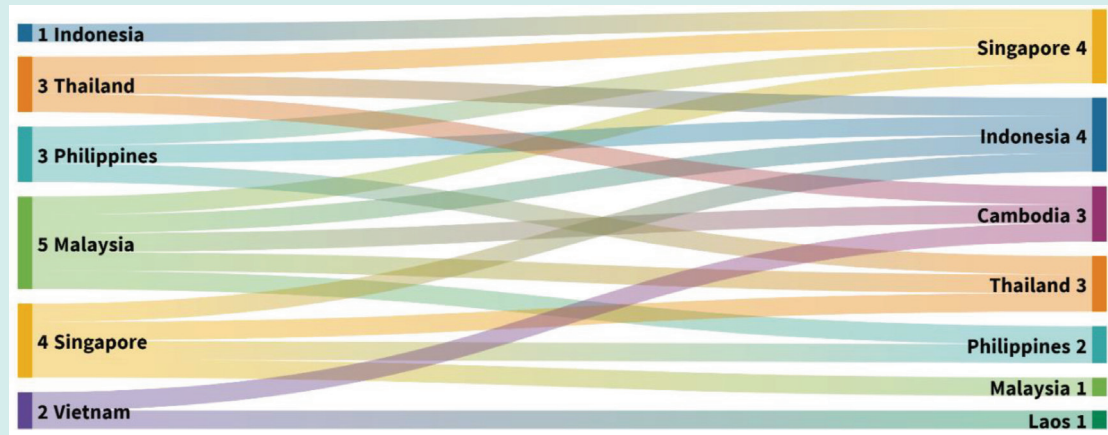
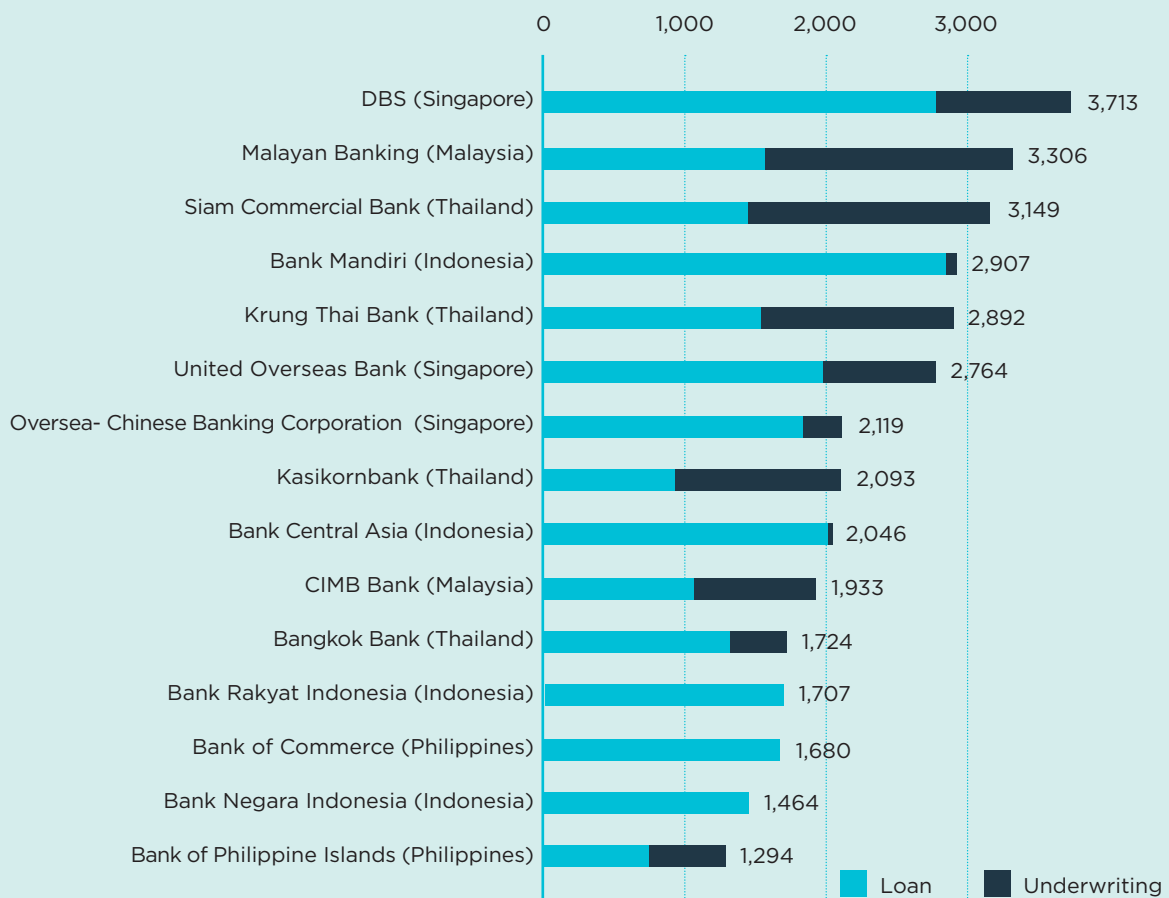


Figure 13: Top 15 agribusiness creditors (2014-2019, US\$ mln)



## ASEAN Financial Flows towards Agriculture

In the period of study, financial institutions from ASEAN countries provided US\$45 billion in loans and underwriting services to the selected agriculture companies. This includes financial flows to companies active in their own economies, as well as towards other ASEAN countries.

Figure 12 shows the intra-regional credit flows, i.e. flows from financial institutions from ASEAN countries, to companies in other ASEAN countries. Financial institutions from Malaysia and Singapore provided the most significant amount of credit to agriculture companies in other ASEAN countries

Figure 13 shows the top 15 creditors from ASEAN member states. 4 of the top 15 agribusiness creditors were Indonesian financial institutions, 4 were from Thailand, 3 financial institutions were from Singapore, and 2 each from the Philippines and Malaysia. The largest was DBS, which provided US\$ 3.7 billion in loans and underwriting services to the selected agriculture companies. It was followed by Malayan Banking (Maybank) with US\$ 3.3 billion and Siam Commercial Bank with US\$ 3.1 billion.

## What does this mean for Sustainable Finance in Asia?

***With great influence comes great responsibility. This certainly applies to Japanese financial institutions identified in this study providing both credit and investing towards some of Asia's largest companies operating in high risk sectors.***

These financial institutions have the potential to catalyze more sustainable and responsible business practices as well as enhance environmental, social, and governance (ESG) transparency and accountability in Asia. However, the change needs to begin within their own institutions, evidenced by policy changes that clearly reflect their position

on critical issues such as climate change, environmental degradation, gender, human rights, corruption, and others. Policy change to address these critical issues is the first step towards progress that's accountable and measurable.

In recent years, there has been some gradual changes in the policies of some of the largest Japanese financial institutions which are beginning to pay greater attention to ESG compliance. While these are welcome changes, acceleration of implementation is key if we are to collectively meet commitments towards the SDGs and the Paris Agreement to limit the global temperature increase to 1.5 degrees Celsius.

***Making fossil fuels financing history: Asia's reliance and appetite for coal is evidently fueled by the vast amount of finance continuously flowing towards this sector with no clear end in sight.*** The International Energy Agency (IEA) warned in a 2019 report that Southeast Asia could become a net importer of fossil fuels in the next few years, raising the financial burden on governments and increasing carbon emissions in the region. On the one hand, Asian financial institutions can play an important role in ensuring a sustainable energy transition in the region by reorienting financing towards renewable energy innovation while implementing exit strategies from fossil fuels that are time bound and with clear objectives.

On the other hand, financial regulation also has a very important role to play in ensuring oversight on private investments towards fossil fuels. Asian regulators need to step up and take a more active role in shaping the necessary guidelines and frameworks to support national governments in developing science based targets on climate finance. More importantly, there needs to be regional coordination in the development and implementation of such frameworks in

order to more effectively address the social and environmental impacts of cross-border investments towards fossil fuels.

**The COVID-19 pandemic has had a profound impact on the social, political, and economic landscape globally.** The massive loss of lives and livelihoods among the most vulnerable populations have become the most apparent consequences of COVID-19 as countries struggle to strike the right balance between containing the virus, and keeping economic activities afloat. As world leaders begin to set post-COVID recovery objectives, it is important to ensure that we no longer resume business as usual practices, but take into account the critical areas for change brought to light by the pandemic. The financial sector is strategically positioned as a key lever of change towards greater sustainability and accountability in the post-COVID world. More specifically, financial institutions could reorient financial flows towards sectors and businesses that uphold ESG standards, and support the acceleration of achieving global commitments towards the SDGs and the Paris Agreement.

In Asia, COVID-19 brought economies to a grinding halt which further exacerbated the negative impacts and risks already borne by some of the poorest and most vulnerable populations in the world. Moreover many private financial institutions in the region also began using COVID-19 as a pretext to delay ESG accountability discussions and initiatives. This study highlights the intricate chain of commercial banks' lending and investing in Asia's high-risk sectors that impact the rights and livelihoods of people in the region, especially the vulnerable communities.

During the time of COVID-19 and in the post-pandemic recovery, financial sector regulators and financial institutions should ensure that: i) financial institutions uphold consumer rights and protection, and implement loan relief measures for clients particularly those whose livelihoods and businesses have been severely impacted by the pandemic; ii) financial institutions and their shareholders cannot profit unfairly as a result of this crisis; and iii) financial institutions continue to take responsibility for social, gender and environmental impacts across their asset and investment portfolios during this period.

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