



FAIR FINANCE ASIA



OXFAM



# HARVESTING INEQUALITY

**THE SOCIAL IMPACT OF FINANCIAL INSTITUTIONS'  
INVESTMENTS IN ASIA'S AGRIBUSINESSES**

MARCH 2022

## About this report

This report was commissioned by Fair Finance Asia (FFA) and the Gender Transformative & Responsible Agribusiness Investments in South East Asia (GRAISEA) program. It analyzes the social issues in Asia's agribusiness sector and the responsibilities of financial institutions in managing human rights risks in their investments and lending practices.

## About Fair Finance Asia

Fair Finance Asia (FFA) is a regional network of civil society organizations (CSOs) committed to ensuring that financial institutions operating in Asia respect and uphold the rights and social and environmental well-being of local communities.

## About GRAISEA

The Gender Transformative & Responsible Agribusiness Investments in South East Asia (GRAISEA) program aims to improve the livelihoods of women and men small-scale producers in the Southeast Asian region and in Pakistan through more responsible and inclusive value chains and private sector investments, and where women demonstrate economic leadership.

## About Profundo

Profundo aims to make a practical contribution to a sustainable world and social justice through research and advice. Quality comes first, aiming at the needs of clients. Thematically, Profundo is focused on commodity chains, the financial sector and corporate social responsibility. More information on Profundo can be found at [www.profundo.nl](http://www.profundo.nl).

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Chapter 3 draws on policy assessments conducted by Fair Finance Asia country coalitions: Fair Finance India, ResponsiBank Indonesia, Fair Finance Guide Japan, Fair Finance Philippines, Fair Finance Thailand, and Fair Finance Vietnam.

The Annex features two case studies researched and published by Fair Finance Guide Japan and ResponsiBank Indonesia.

Correct citation of this document: J. Laplane, E. Achterberg, W. Warmerdam and F. Muna, (2022, March), Harvesting inequality: The social impact of financial institutions' investments in Asia's agribusinesses: Profundo, Fair Finance Asia, GRAISEA.

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In addition, Fair Finance Asia would like to thank all contributors to this report, including:

- The GRAISEA team for their valuable feedback and assistance.
- Members of FFA national coalitions for their valuable inputs: Fair Finance Cambodia, Fair Finance India, ResponsiBank Indonesia, Fair Finance Guide Japan, Fair Finance Pakistan, Fair Finance Philippines, Fair Finance Thailand, and Fair Finance Vietnam.
- Fair Finance International for its valuable feedback and linkages with other global initiatives.
- Sandy Pederson of Seed Edit Communications for editing the report.
- Sunil Butola of Creative Design Consultants for cover and report design.
- Cover photo by Pexels-Pixabay

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# SUMMARY AND HIGHLIGHTS

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Across South and Southeast Asia, national economies, workers' livelihoods and household food security depend heavily on agriculture and fishing. In 2020, the food and agriculture sector was the largest employer in Asia,<sup>1</sup> accounting for 10.3% of total GDP in the ASEAN region.<sup>2</sup> In addition to agricultural workers, Asia is home to approximately 350 million smallholder farmers, who together produce around 80% of the food consumed in the region.<sup>3</sup> Nearly all global fish production (89%) is in Asia where fish and seafood provide the main source of animal protein in people's diets.<sup>4</sup>

However, agribusinesses in Asia are mired in challenges. Agricultural products are grown and distributed in complex value chains where exploitative working conditions and human rights violations are pervasive. The landless farmers and small-scale producers who grow most of Asia's food are experiencing the double blow of climate change and the COVID-19 pandemic, which are reversing hard-won gains in food sovereignty and poverty and threatening the livelihoods of rural communities.

As agribusinesses in Asia have grown and attracted more investment, they have received increased scrutiny from international investors, regulators, consumers, the media and civil society, to ensure human rights and labor rights are respected in their supply chains. Fair Finance Asia (FFA) and Gender Transformative and Responsible Agribusiness Investments in Southeast Asia (GRAISEA) support a shift away from socially harmful financing practices in the food and agriculture sector and promote responsible and inclusive business and investment standards in agribusiness value chains.

This study examines financial flows to agribusinesses across Asia, the role and responsibility of the financial sector in implementing responsible social practices and sustainability, the most prevalent social issues in the food and agriculture sector and the gap between what is required by international standards and banks' sustainable finance policies and practices. Thirteen countries are covered by this report: Brunei, Cambodia, India, Indonesia, Japan, Laos, Malaysia, Myanmar, Pakistan, Philippines, Singapore, Thailand and Vietnam.

## **Financial institutions have a responsibility to protect human rights**

Disregard for women's rights and labor rights is a persistent structural issue in Asia's agriculture sector, enabled by inadequate government regulation and enforcement, the failure of agribusinesses to respect human rights and negligence by financial institutions to ensure the companies they fund are operating responsibly.

Through credit and investments, financial institutions can exercise significant influence over the practices and policies of the companies they invest in. However, when banks do not consider the potential or actual adverse impacts on people and local communities, they can facilitate human rights violations and are exposed to significant financial and reputational risks of their own.

## **Sustainability standards and regulations are flourishing, but not enforced**

Pressure has been mounting on financial institutions over the past two decades to integrate environmental and social risks in their policies and processes. This has led to the introduction of various standards and regulations for sustainable financing and environmental, social and governance (ESG) practices at international, regional and national levels.

In ASEAN and FFA countries, national sustainability frameworks have been developed by regulators or banking associations to encourage financial institutions to embed environmental and social risks in their strategy and risk management systems. ASEAN has actively promoted sustainable investment in the region with the ASEAN Guidelines on Promoting Responsible Investment in Food, Agriculture and Forestry (ASEAN RAI). Most of these sustainability frameworks are still voluntary, however, and lack strong enforcement mechanisms to influence how financial institutions conduct their business. While environment focused policies are slowly being integrated by regulators in Asia, social and environmental considerations have not been given equal attention.

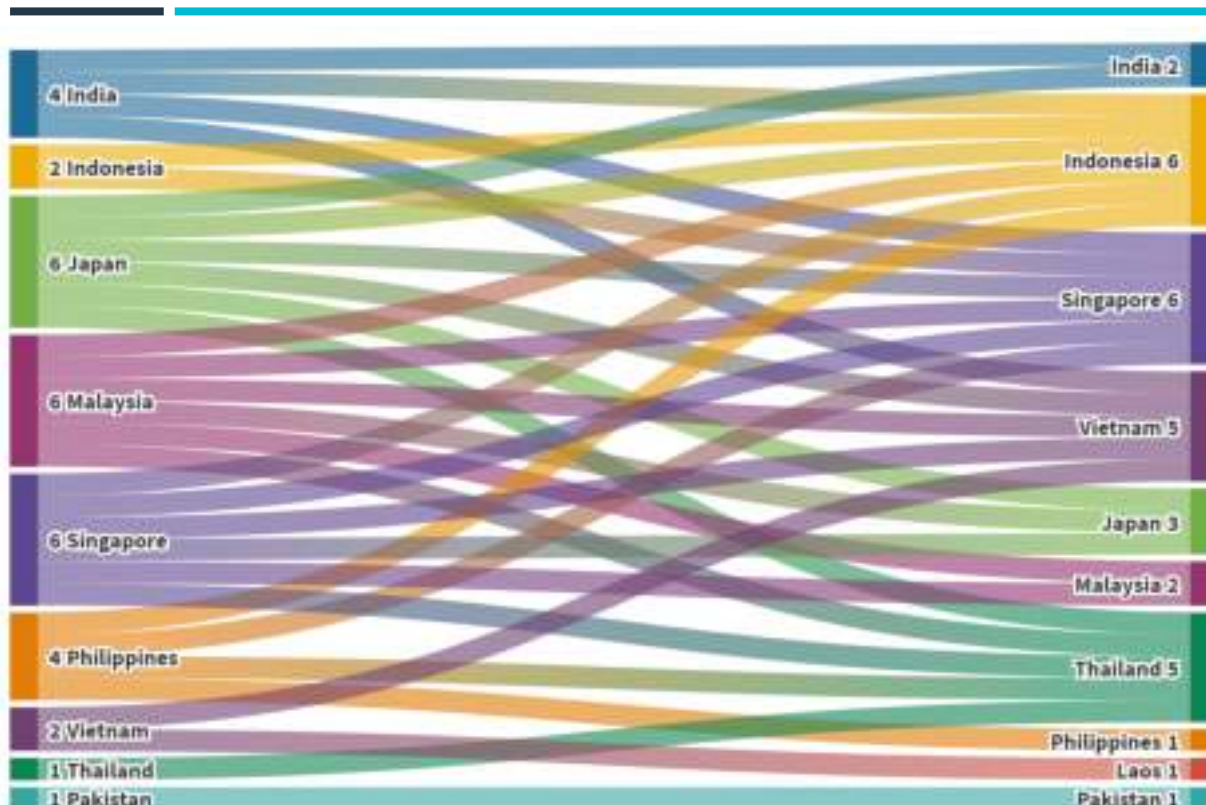
## **Women's rights and labor rights are being violated in the food and agriculture sector**

Despite some government regulations on labor rights and gender equality, workers in the food and agriculture sector are subjected to exploitative activities. Modern slavery, forced labor, child labor, informal and precarious work, violations of freedom of association and the right to organize, low wages, dangerous working conditions and discrimination are all common in agricultural workplaces. Communities in the vicinity of large-scale agriculture and fishing operations experience violations of their land rights, deforestation, water and air pollution and soil depletion, on top of the accelerating impacts of climate change and extreme weather events. Women, indigenous peoples, migrants, informal workers, persons with disabilities and ethnic and religious minorities are disproportionately impacted by the irresponsible conduct of agribusinesses.

## **The role of the financial sector in intraregional financial flows to agribusinesses**

Banks play an essential role in financing the agribusiness sector in FFA and ASEAN countries. Financial research of 125 agribusinesses operating in the ASEAN region and countries where FFA operates has shown that between January 2016 and December 2020, these companies received \$22.6 billion in loans and underwriting attributable to their agribusiness activities from financial institutions active worldwide. Most of this amount (81%) has been provided by financial institutions from ASEAN and FFA countries themselves. The largest creditors are Japanese, Singaporean and Malaysian banks. These three countries also provided agriculture-attributable credit to most of the other selected countries.

**FIGURE 1: Credit flows from Asian banks to selected Asian agribusinesses (number of countries providing credit to (left) and number of countries receiving credit from (right), 2016–2020)**

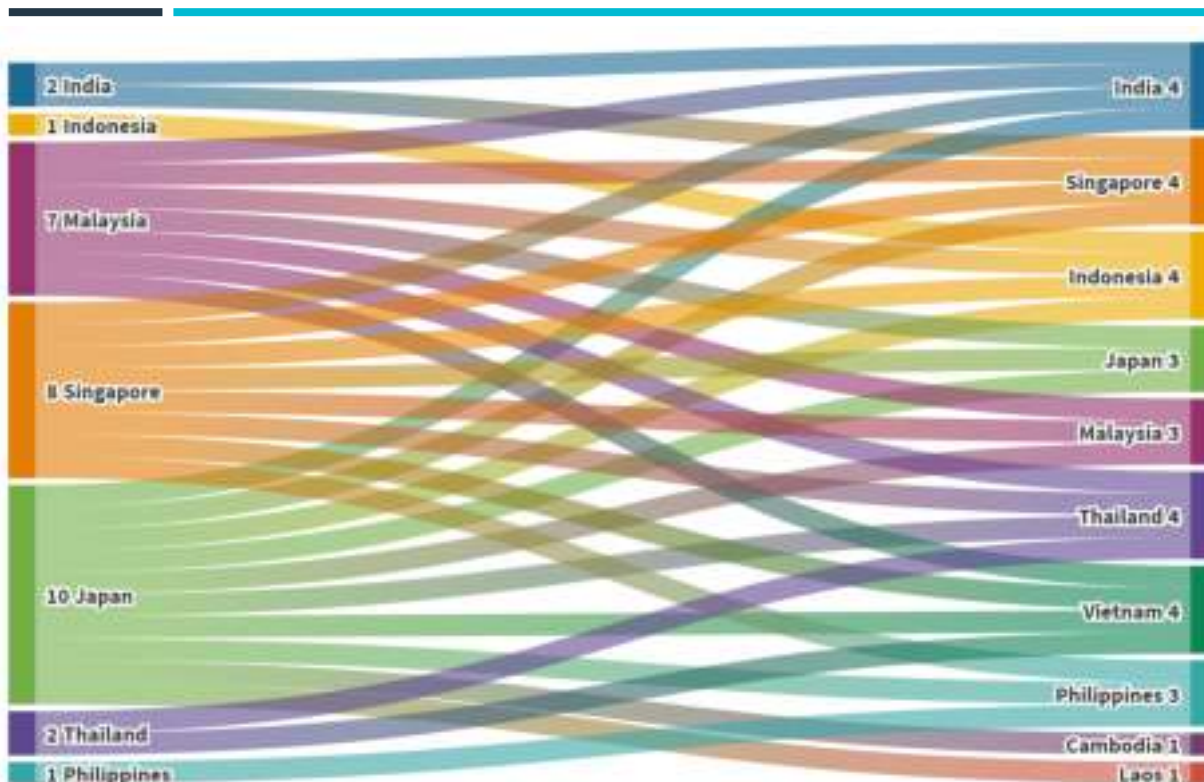


Financial institutions from other regions are also important creditors, as 19% of credit to the selected companies were provided by banks headquartered in Europe, the US, China and Taiwan.

Investments in shares and bonds of the selected companies amounted to nearly \$7.8 billion, although the dynamics were different; nearly 60% of investments came from the US and Europe, and one third of total investments (\$2.6 billion) from American investors. Financial institutions from ASEAN and FFA countries accounted for the remaining 42 per cent.

Figure 2 shows that, once again, financial institutions from Japan, Malaysia and Singapore provided the greatest proportion of agriculture-attributable investments to other selected countries. Companies based in Singapore, Indonesia, India, Thailand and Vietnam received investments from the greatest number of countries in this category.

**FIGURE 2: Investments from Asian investors in selected Asian agribusinesses (number of countries invested in (left) and number of countries invested by (right), May 2021, most recent filings)**



### The human rights and labor rights policies of banks are critically underdeveloped and gender-responsive policies are missing entirely

To understand the extent to which financial institutions are integrating social issues in their policies, this study assessed the policies of 54 financial institutions active in financing the agriculture sector in the 13 focus countries.<sup>1</sup> Using the Fair Finance Guide International (FFGI) methodology, which is based on international sustainability standards, the banks were assessed in five areas: gender equality, human rights, labor rights, financial inclusion and transparency and accountability.

Overall, social issues were very poorly integrated in their sustainability policies, with average scores of less than 2.0 out of 10.0 for gender equality, human rights, labor rights and transparency and accountability. Gender equality was the most-ignored issue; nearly 90% of financial institutions do not disclose information on how gender issues and women’s rights are addressed in their relationships with clients or the companies they invest in.

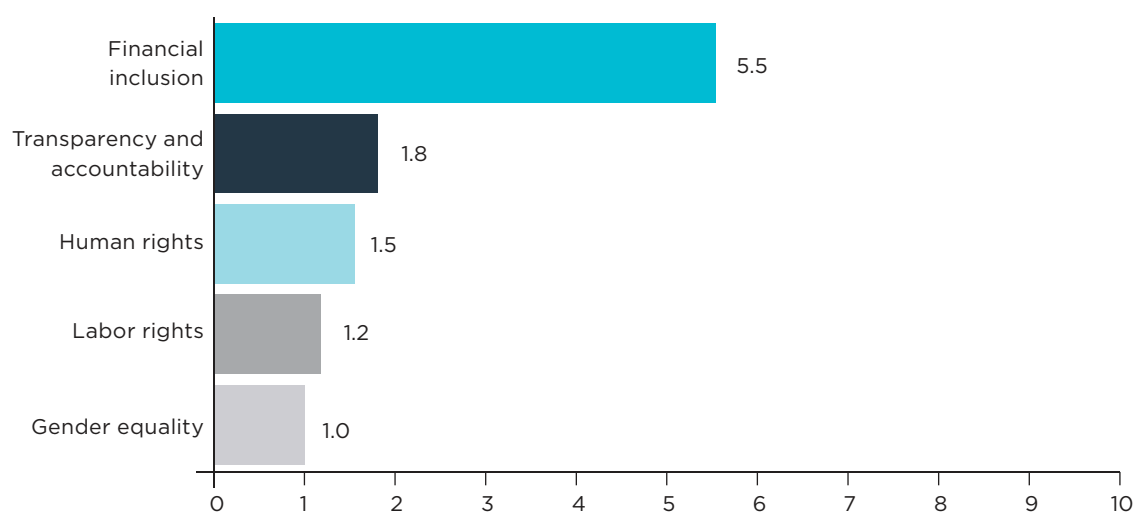
Most of the banks did not consider human rights issues in their transactions and 57% received a score equal to zero. While many CSOs continue to denounce conflicts over land rights in Southeast Asia, all the banks have remained silent on that issue.

<sup>1</sup> The banks selected for this study are those included in the Fair Finance Guide of six FFA country partners (India, Indonesia, Japan, Philippines, Thailand and Vietnam). In addition, one Dutch bank, Rabobank, was added to the panel, as the financial research showed that it was one of the top 15 creditors of agribusiness in Asia.

Country scores on labor rights were all low except Japan. More than half (55%) of the banks assessed scored less than 1.0 out of 10.0. None of the banks assessed appear to include living wage and maximum working hours in their due diligence with clients despite evidence that both are salient human rights issues in the agriculture sector in Asia.

Banks have a long way to go in terms of being more transparent about their sustainability policies, in how they assess environmental and social risks in their lending and investments and providing effective, operational-level grievance mechanisms in compliance with international standards.

**FIGURE 3: Integration of social issues in bank policies, average scores (/10)\***



\* Refer to section 3.1 for country coverage and banks, and section 3.2 to understand the methodology and timeframe of data collection

Banks are paying more attention to financial inclusion, with 64% achieving a score higher than 5.0 out of 10.0. Most of the banks assessed offer services and products aimed at disadvantaged groups and micro, small and medium-sized enterprises (MSMEs), and often have financial literacy programs.

### Field research reveals human rights and labor rights violations in the plantation sector

The absence of strong policies by financial institutions on human rights, women's rights and labor rights has an impact on how companies conduct their operations. Field research conducted by Fair Finance Asia coalitions at banana plantations in the Philippines and palm oil plantations in Indonesia revealed human and labor rights violations on the ground.

Although these types of violations widen the inequality gap by pushing workers, smallholder farmers and local communities, especially women, into poverty, financial institutions continue to provide credit to agribusiness companies without changing their policies and processes to comply with international, regional and national sustainability standards and regulations.

## There is a gap between policy and practice

Our research has revealed a significant gap between the public sustainability policies and management frameworks of financial institutions and what is expected of them by international and regional sustainability standards, such as the UN Guiding Principles on Business and Human Rights (UNGPs), the OECD Guidelines for Multinational Enterprises and the ASEAN RAI Guidelines. These standards require banks to have due diligence processes to identify, prevent, mitigate and account for how they address their adverse impacts on human rights, including the impacts linked to operations, products or services through business relationships.

## Recommendations for financial institutions

Based on the findings of this study, the FFA and GRAISEA offer the following recommendations to financial institutions providing credit to, or investing in, Asia's food and agriculture sector. These recommendations are aimed at accelerating responsible financing and investment in the sector:

- **Commit, in policy and in practice, to respecting internationally recognized human rights conventions.** This includes labor rights as outlined in the ILO Declaration on Fundamental Principles and Rights at Work, and women's rights as outlined in the Convention on the Elimination of All Forms of Discrimination against Women (CEDAW). Corporate clients and investee companies should be expected to respect these human rights conventions and demonstrate compliance with international, regional and/or national standards on social and human rights as a (pre)condition for financing. To strengthen their sustainability commitments, banks can also include human rights and labor rights expectations in loan contracts or underwriting agreements. The FFGI<sup>5</sup> methodology includes a range of suggestions for how banks and investors can include international conventions and standards in their policies.
- **Develop sector policies for industries associated with significant environmental and social risks, including food and agriculture.** These policies should consider the issues that arise with different types of commodities, promote respect for the rights of workers and local communities, ensure proper land governance and encourage agribusinesses to apply internationally accepted practice standards.
- **Build internal capacity to implement sustainability standards and regulations** across different business units to embed sustainability in the corporate structure. These can include assessing credit risk, compliance, environmental and social risk, project finance, debt capital markets, equity capital markets, asset management and communication.
- **Adopt a gender-responsive approach to human rights due diligence,** including collecting gender-disaggregated data and ensuring that prevention, mitigation and remediation processes adequately address the (potentially) disproportionate and varying impacts on women and girls. In their human rights due diligence, banks should also pay attention to the rights and challenges faced by other vulnerable and marginalized communities, such as migrant workers, indigenous peoples or ethnic minorities.
- **Collaborate in regional platforms and initiatives that promote responsible investments and business practices in the agriculture sector** to collectively address social issues in Asian agribusinesses. Financial institutions should also encourage corporate clients and investee companies to participate in these platforms.

- **Develop engagement strategies to pressure agribusinesses clients and investees to cease and mitigate human rights abuses in the sector.** Engagement strategies should include clear and measurable goals, timelines and intermediate steps. Financial institutions should also publicly report the number of clients they have engaged with, the topics, the results and, as best practice, the names of the clients. Financial institutions should also actively engage or influence other lenders or investors to problematic companies to jointly put pressure for swift change.
- **Support and promote the adoption of binding legislation on responsible financing and business and human rights.** To prevent corporate clients from switching to other financial institutions with fewer human rights demands, legislation should set clear minimum rules for regulations on responsible financing and business and human rights.
- **Develop processes to enable remediation.** If financial institutions have financed companies involved in human rights violations, they have a responsibility to facilitate remediation. This process can be supported in a variety of ways. Financial institutions can require clients that operate in high-risk sectors/projects, or have a poor track record with responsible business conduct, to develop operational-level grievance mechanisms that meet the effectiveness criteria of the UNGPs. They can also engage with clients to ensure these mechanisms are widely known and accessible to affected stakeholders, and they can establish grievance mechanisms, either on their own or in cooperation with other stakeholders. In addition, financial institutions should commit to cooperate with non-judicial, state-based mechanisms, such as OECD National Contact Points (NCPs) or other processes (developed by trade unions, CSOs or others) that could enable remediation.

## Recommendations for ASEAN and Asian governments

For the financial sector to integrate human rights and gender considerations in financing and lending practices, governments need to show strong leadership. The following recommendations are for ASEAN and Asian governments to foster responsible private-sector investment:

- **Sustainable finance taxonomies should help uphold human rights and labor rights standards.** The ASEAN Taxonomy for Sustainable Finance should not only focus on the transition to a low-carbon society, but also consider the different needs of individuals, workers and local communities. The Taxonomy should aim to uphold human rights and social standards, taking into consideration the rights and challenges faced by vulnerable and marginalized communities, as well as gender inequalities. This begins by requiring investors to implement the UNGPs in their investment decisions and engagement initiatives, and to develop specific policies on the environmental and social risks associated with key sectors of the regional economy, including the food and agriculture sector. This recommendation also applies to all Asian countries developing a national sustainable finance taxonomy.
- **Develop enforcement mechanisms to ensure the ASEAN RAI Guidelines are adopted effectively.** The RAI Guidelines are a positive step in encouraging member states, businesses and investors to implement responsible business practices in the region. However, this study found that the policies of most of the food and agriculture sector's major creditors still overlook human rights, labor rights and women's rights, and that the sector is associated with serious abuses. Better collaboration between countries to

monitor the implementation of the RAI Guidelines is needed, and ASEAN Member States could consider developing a regional, non-judicial grievance mechanism to enable CSOs and local communities to issue complaints when companies breach the Guidelines and to facilitate dispute resolution. The OECD NCPs, which handle complaints about alleged breaches of the OECD Guidelines for Multinational Enterprises, are an example of a non-judicial grievance mechanism. All OECD member and adhering countries are required to establish NCPs. NCPs operate at the national level, but complaints can be filed on the global activities of any corporation, as long as it is headquartered in, or operating from, an OECD member or adhering country.

- **Asian countries should adopt national human rights due diligence legislation** that sets binding requirements for all companies, including financial institutions, to respect human rights across their entire value chains. These requirements would be in compliance with the UNGPs and the OECD Guidelines for Multinational Enterprises.
- **Monitor, evaluate and communicate about the implementation of national and regional policies for responsible financing.** Various standards have been developed at national and regional levels to encourage the financial sector to adopt more sustainable practices and ensure it is contributing to inclusive economic growth and women's empowerment. While all these standards include some disclosure requirements, they lack detailed reporting frameworks and guidelines with clear and measurable indicators. To develop such guidelines, governments should consult with CSOs, trade unions and academics that represent the voices of women, Indigenous peoples, migrant workers, ethnic or religious minorities and other marginalized communities. In addition, governments should conduct periodic evaluations (at least annually) to assess progress and adjust their action plans based on the results. This evaluation should be publicly accessible to strengthen dialogue between governments, the private sector, CSOs and local communities.
- **Develop and implement a National Action Plan (NAP) on business and human rights.** A NAP is a policy document in which a government articulates priorities and actions it will adopt to support the implementation of UNGPs. The process of developing a NAP should be undertaken in an inclusive, transparent and participatory manner through multistakeholder dialogues. As a positive step, the governments of Japan, Pakistan and Thailand have developed NAPs on business and human rights. Resources should be allocated to disseminate the content of those plans to the private sector and conduct periodic evaluations to assess progress.

## Recommendations for civil society organizations

Based on the findings of this study, the FFA and GRAISEA offer the following recommendations to Asian civil society organizations (CSOs):

- **Actively engage in the key consultative processes of financial institutions**, such as providing evidence-based inputs at annual general meetings and taking opportunities to comment on the policies of financial institutions.
- **Build capacity and strengthen strategic alliances to monitor the policies of financial institutions as well as government regulations that impact lending and investment decisions towards projects and businesses.** The FFGI methodology is a comprehensive and rigorous assessment tool that CSOs can use for this purpose.

- **Monitor the implementation of grievance redress mechanisms and the quality of engagement by financial institutions towards the businesses they finance** particularly those involved in large plantation and agricultural projects. Informed and active engagement should help to demystify community issues and gaps in policy and practice which is especially important to address the endemic gender and human rights issues in the sector.
- **Work together to track the cross-border financing** of key sectors (fossil fuels, agriculture and forestry) and **create platforms for sharing data, knowledge and experiences** across the region to uphold the duty of care by financial institutions.

# ABBREVIATIONS

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ACMF	ASEAN Capital Market Forum
ASEAN	Association of Southeast Asian Nations
ASEAN RAI	ASEAN Guidelines on Promoting Responsible Investment in Food, Agriculture and Forestry
CSR	Corporate Social Responsibility
ESG	Environmental, Social and Governance
FAF	Food Agriculture and Forestry
FAO	United Nations Food and Agriculture Organization
FFA	Fair Finance Asia
FFGI	Fair Finance Guide International
FFI	Fair Finance International
FPIC	Free, Prior and Informed Consent
GAP	Good Agricultural Practices
GDP	Gross Domestic Product
GRAISEA	Gender Transformative and Responsible Agribusiness Investments
IFC	International Finance Corporation
ILO	International Labour Organization
ISPO	Indonesian Sustainable Palm Oil
NAP	National Action Plan
NCP	National Contact Point
OECD	Organisation for Economic Co-operation and Development
OHS	Occupational Health and Safety
PPE	Personal Protective Equipment
RSPO	Roundtable on Sustainable Palm Oil
SDGs	Sustainable Development Goals
UN	United Nations
UNGC	United Nations Global Compact
UNGPs	United Nations Guiding Principles on Business and Human Rights

# INTRODUCTION

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Agriculture is a vital sector in South and Southeast Asia. For member countries of the Association of Southeast Asian Nations (ASEAN)<sup>ii</sup> and the Fair Finance Asia (FFA) coalitions,<sup>iii</sup> agriculture is one of the biggest contributors to gross domestic product (GDP) and economic growth and development in the region. In 2020, agriculture accounted for 10.3% of total GDP in the ASEAN region,<sup>6</sup> and the sector is particularly important to the economies of Cambodia, India, Indonesia, Laos, Myanmar, Pakistan and Vietnam (Table 1).

The food and agriculture sector is also the most important source of employment in Asia. More than a third of the working population in Cambodia, Pakistan and Vietnam, and nearly half of the working population in India and Myanmar, are employed in agriculture, forestry and fishing. In Laos, 61% of employed people work in agriculture. Nearly all agricultural employment in the Asia-Pacific region is informal (94.7%), and in Southeast Asia, 99.3% of work in agriculture is informal.<sup>7</sup>

Women are generally overrepresented in the informal workforce in agriculture. In Brunei, 70.3% of women working in agriculture are informally employed, compared to 35% of men. This is not unique to Brunei – informal employment rates are also generally higher among women in other countries in Asia (Table 1).

Asia is home to approximately 350 million smallholder farmers who together produce around 80% of food consumed in the region.<sup>8</sup> These smallholders produce food primarily for subsistence and local markets, although in some sectors they contribute significantly to the production of (regional) export crops, such as palm oil.

It is not only in agriculture that smallholders are responsible for the lion's share of local production, but also in the fisheries sector. Fish and seafood products represent the main source of animal protein for most people in Southeast Asia, and therefore play a crucial role in food security and nutrition.<sup>9</sup> According to the United Nations Food and Agriculture Organization (FAO), 89% of global fish production is produced in Asia, and 85% of the world's fishery workers are employed in the region. Small-scale fisheries contribute about half of global fish catches and employ more than 90% of people working in fisheries. About half of the workers in fisheries are women, who are mostly active in marketing and processing.<sup>10</sup>

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<sup>ii</sup> Brunei, Cambodia, Philippines, Indonesia, Laos, Malaysia, Myanmar, Singapore, Thailand and Vietnam.

<sup>iii</sup> Cambodia, India, Indonesia, Japan, Pakistan, Philippines, Thailand and Vietnam.

**TABLE 1: Economic importance of agriculture, forestry and fishing in FFA and ASEAN countries, 2021**

Country	Economic value added (% of GDP)	Employment (% of total employment)	Informal employment rate in agriculture (%)		
			Overall	Male	Female
Brunei	1.2	2	39.8	35.0	70.3
Cambodia	22.8	35	99.6	99.5	99.8
India	18.3	43	99.7	99.7	99.7
Indonesia	13.7	29	94.7	92.6	98.2
Japan	1.2	3	-	-	-
Laos	16.2	61	99.1	98.7	99.5
Malaysia	8.2	10	-	-	-
Myanmar	22.8	49.0	80.2	72.6	93.3
Pakistan	22.7	37.0	99.0	98.4	99.9
Philippines	10.2	23.0	-	-	-
Singapore	0.0	0.0	-	-	-
Thailand	8.6	31.0	89.2	86.7	92.8
Vietnam	14.9	37.0	98.5	98.2	98.9

Sources: World Bank Data (2021), "Agriculture, forestry, and fishing, value added (% of GDP)", <https://data.worldbank.org/indicator/NV.AGR.TOTL.ZS>, viewed in August 2021; World Bank Data (2020), "Employment in agriculture (% of total employment) (modelled ILO estimate)", viewed in August 2021; ILO (2021), "Informal employment rate by sex and economic activity (%)", ILOSTAT, viewed in August 2021.

The importance of the agriculture, forestry and fishing sectors to Asian economies, livelihoods and food security is undeniable. However, these sectors are mired in social challenges, in part due to heavy reliance on complex value chains that are driven by the work of vulnerable and marginalized populations, including women, landless farmers and small-scale producers. Countries in Asia continue to face significant challenges in overcoming poverty and hunger, particularly in rural areas. Today, more than half (418 million) of undernourished people in the world live in Asia and 1.2 billion people in Asia suffer from food insecurity.<sup>11</sup> Poverty and malnourishment have a disproportionate impact on people in rural areas where agriculture is the main economic sector. Four out of five people who live below the international poverty line live in rural areas.<sup>12</sup>

The COVID-19 pandemic has reversed hard-won gains in hunger and poverty reduction. Compared to 2019, an additional 57 million people in Asia suffered from undernourishment in 2020.<sup>13</sup> The World Bank estimates that the pandemic has pushed another 121 million people into poverty, 60% of whom live in South Asia.<sup>14</sup> An even larger crisis looms with climate change, which threatens agricultural production and loss of crops through changes in rainfall patterns, shortages of irrigation water, extreme weather events and global warming. Given that Asia's population is still growing – a 9% increase is projected by 2030 (4.3 billion people) – it will be crucial to tackle hunger and poverty and develop a more sustainable and resilient agriculture sector.<sup>15</sup>

Creating the equal and prosperous societies envisioned by the United Nations Sustainable Development Goals (SDGs) requires combating hunger (SDG 2) and poverty (SDG 1), reducing inequalities (SDG 10) and supporting responsible consumption and production (SDG 12). Improving gender equality (SDG 5) and promoting decent work (SDG 8) are vital pieces of the puzzle. All these issues are connected and interdependent and, in a sector as crucial to economic growth, employment, food security and climate change as food and agriculture, the inequalities and injustices facing those driving the sector cannot be ignored.

**FIGURE 4: United Nations Sustainable Development Goals 2030**



Source: United Nations (2015), “Global Goals for Sustainable Development: Resources”, <https://www.globalgoals.org/resources>.

Between 2016 and 2021, financial institutions in ASEAN Member States, as well as India, Japan and Pakistan, released a total of USD 21.5 billion in credits and investments to agribusinesses active in their regions. As the agriculture sector has attracted new lending and investments, it has received increased scrutiny from international investors, regulators, consumers, the media and CSOs to ensure agribusinesses respect human rights and labor rights in their supply chains.

As a result, new regulations and standards addressing environmental, social and governance (ESG) topics have been flourishing in ASEAN and other Asian markets. The ASEAN Guidelines on Promoting Responsible Investment in Food, Agriculture and Forestry (ASEAN RAI) were adopted by the ASEAN Ministers on Agriculture and Forestry in 2018. The main objective of the guidelines is to promote investments in food and agriculture, including fisheries and forestry, that contribute to regional economic development, food and nutrition security, food safety and equitable benefits, as well as the sustainable use of natural resources.<sup>16</sup>

This report examines social issues in the region's food and agriculture sector, with a focus on women's rights and labor rights. It tracks the financial flows between financial institutions and selected agribusiness companies active in ASEAN countries and in India, Japan and Pakistan (countries where the FFA network is active) and assesses the contribution of these financial institutions to the implementation of responsible social practices and sustainability standards in the sector.

The report is structured as follows:

- Chapter 1 analyzes and highlights key financing and investment trends in Asia's food and agriculture sectors, as well as financing from other regions, including Europe and North America.
- Chapter 2 provides an overview of the key international, regional and national policies and standards guiding and regulating responsible financing.
- Chapter 3 assesses how banks in the study's 13 focus countries integrate social issues in their responsible lending policies and examines specific challenges in the food and agriculture sector.
- Chapter 4 elaborates the social and human rights challenges in the food and agriculture sector in Asia, with a focus on labor rights and women's rights.
- Chapter 5 provides recommendations from FFA and GRAISEA for CSOs, financial institutions, ASEAN and Asian governments to accelerate responsible financing and investment in Asia's agriculture sector.
- The Annex presents the results of on-site investigations that found evidence of links between financial institutions active in FFA countries and harmful practices by agribusinesses that are in contravention of international and/or regional sustainability standards.

A summary of the research findings can be found in the first pages of this report.

## CHAPTER 1

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# FINANCIAL FLOWS TO FOOD AND AGRICULTURE IN ASIA

This chapter analyses key trends in cross-border investment and financing flows to the food and agriculture sector in Asia between 2016 and 2021. It begins with a description of the methodology used to conduct the financial research (section 1.1). The findings of the financial research are then presented in section 1.2, starting with an overview of the study's 13 focus countries, followed by ASEAN countries and a country-level analysis of each.

## 1.1 Methodology

### 1.1.1 Focus countries

The study looked at the financial flows of selected companies active in the agribusiness industry in the 10 ASEAN countries (Brunei Darussalam, Cambodia, Laos, Indonesia, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam), plus three FFA countries not in ASEAN (Japan, India and Pakistan).

The research will focus on internal and cross-border financial flows to member countries of ASEAN and/or the Fair Finance Asia coalition:

**TABLE 2: Selected countries**

Country	Member of ASEAN	FFA coalition
Brunei	X	
Cambodia	X	X
India		X
Indonesia	X	X
Japan		X
Laos	X	
Malaysia	X	
Myanmar	X	
Pakistan		X
Philippines	X	X
Singapore	X	
Thailand	X	X
Vietnam	X	X

### 1.1.2 Selected companies

To conduct the mapping of financial flows, research into the financing of agribusiness companies was done as a first step. A list of the main companies active in the agribusiness sector was compiled for each of the focus countries (see section 1.1.1).

The lists were developed using industry reports, trade journals, EuroMonitor, EMIS, Orbis, Refinitiv (formerly known as Thomson Reuters EIKON) and Bloomberg. Companies were selected on the basis of their market share, where available. Where details of market share were not available, the proportion of companies' total revenues and/or total assets of the sector in the respective country were used instead. *The final selection of companies can be considered the most important agriculture companies in the focus countries and, as such, a representative sample.* However, because agriculture is a diverse sector with multiple

commodities, it is not possible to determine what proportion of market share the selected companies represent. More companies were selected in some countries than others due to the importance of additional agro-commodities in those countries.

It should also be noted that several of the companies are active in more than one country and/or more than one sector. Segment and geographic adjusters were calculated to address the potential impact on the figures from the financial flows research (see section 1.1.7 for details).

The list of companies is presented in Table 3. Please note that the selected companies are categorized not by country of origin but by the country, or countries, in which the company is operating. Also note that the companies were selected as representative of the agriculture sector in the selected countries. ESG performance issues were not considered in the company selection process.

**TABLE 3: Selected agribusiness companies active in Asian countries**

Country of operation	Company
Brunei	Brunei Meat Company (BMC)
Brunei	Golden Chick Hatchery & Breeding Farm
Brunei	Hua Ho
Brunei	Ideal Hatchery
Brunei	Pertanian Tropikal Utama
Brunei	Riza Group
Brunei	Soon Lee Farm & Trading
Cambodia	Bean Heack Investment
Cambodia	Chhun Hong Rubber Better
Cambodia	CJ Cambodia
Cambodia	Dak Lak Mondulkiri Plantation (VRG)
Cambodia	Kampuchea Fish Import and Export Company
Cambodia	Lee's Frozen Food Service
Cambodia	Longmate Agriculture
Cambodia	TTY Corporation
Cambodia	Vietnam Rubber Group
Cambodia	Vitamar
India	Bajaj Hindusthan Sugar
India	Balrampur Chini Mills
India	Coca-Cola India

Country of operation	Company
India	Eid Parry India
India	Glaxosmithkline Consumer
India	Godrej Industries
India	Hatsun Agro Products
India	Hindustan Unilever
India	Indian Tobacco Company (ITC)
India	Nestlé India
India	Ruchi Soya Industries
India	Shree Renuka (Wilmar)
India	Tata Global Beverages
Indonesia	Bumitama Agri
Indonesia	Charoen Pokphand Indonesia
Indonesia	Eagle High Plantations & Arrtu Plantation (Rajawali Group)
Indonesia	First Resources
Indonesia	Golden Agri Resources
Indonesia	Indofood Sukses Makmur
Indonesia	Japfa Comfeed Indonesia
Indonesia	Malindo Feedmill
Indonesia	Sampoerna Agro
Indonesia	Ultrajaya Milk Industry & Trading
Japan	Aeon
Japan	Calbee
Japan	Ezaki Glico
Japan	FamilyMart
Japan	Fuji Oil
Japan	Itochu
Japan	Kao
Japan	Life Corporation
Japan	Lotte
Japan	Marubeni
Japan	Meiji Holdings
Japan	Mitsubishi

Country of operation	Company
Japan	Mitsui & Co
Japan	Nisshin Foods Holdings
Japan	Nisshin OilliO
Japan	Seven & I Holdings
Laos	Hoang Anh Gia Lai (HAGL)
Laos	Indochina Development Partners Lao (IDP)
Laos	Lao Farmers' Products
Laos	Vietnam Rubber Group
Malaysia	Felda Global Ventures
Malaysia	Guan Chong
Malaysia	IOI Corporation
Malaysia	Kuala Lumpur Kepong
Malaysia	Malayan Flour Mills
Malaysia	MSM Malaysia Holdings
Malaysia	Nestle (Malaysia)
Malaysia	PPB Group
Malaysia	Sarawak Oil Palms
Malaysia	Sime Darby Plantations
Myanmar	Dagon Group of Companies
Myanmar	De Heus
Myanmar	FMI Group
Myanmar	Lesaffre
Myanmar	Supreme Group of Companies
Myanmar	Yanmar Myanmar
Pakistan	Agriona
Pakistan	Chaudhry Sugar Mills
Pakistan	Horizons International
Pakistan	JDW Sugar Mills
Pakistan	Khoski Sugar Mills
Pakistan	Maxim International
Pakistan	Profam Pakistan
Pakistan	Rahim Yar Khan Sugar Mills

Country of operation	Company
Philippines	AgriNurture
Philippines	Alliance Select Foods
Philippines	Central Azucarera De Tarlac
Philippines	JG Summit Holdings (Salim Group)
Philippines	Liberty Flour Mills
Philippines	RFM
Philippines	Roxas And Co
Philippines	San Miguel Pure Foods (Top Frontier Investment Holdings)
Philippines	Silvicultural Industries
Philippines	Swift Foods (A Brown Company)
Philippines	Vitarich
Singapore	Denis Group
Singapore	First Resources
Singapore	Golden Agri Resources
Singapore	Li Chuan Food Products
Singapore	Musim Mas
Singapore	Ocean Fresh
Singapore	Olam
Singapore	Royal Golden Eagle (RGE) Apical
Singapore	Thong Siek Food Industry
Singapore	Wilmar International
Thailand	Bangkok Ranch
Thailand	Charoen Pokphand Foods
Thailand	Charoen Pokphand Group
Thailand	GFPT
Thailand	Kaset Thai International
Thailand	Khon Kaen Sugar Industry
Thailand	Khonburi Sugar
Thailand	Mitr Phol Group
Thailand	Sri Trang Agro-Industry
Thailand	Thai Union Frozen Products
Thailand	Thai Vegetable Oil

Country of operation	Company
Thailand	Thaifoods Group
Vietnam	Hung Vuong
Vietnam	Lam Son Sugar
Vietnam	Minh Phu Seafood
Vietnam	Societe De Bourbon Tay Ninh
Vietnam	Southern Seed
Vietnam	Tuong An Vegetable Oil
Vietnam	Viet Nam Dairy Products (Vinamilk)
Vietnam	Vinacafe Bien Hoa

### 1.1.3 Types of financing

Two types of financing were researched to identify the linkages between financial institutions and the selected companies: credits and investments. The credit data corresponds with financing through loans or the underwriting of share and/bond issuances. Investment data corresponds with equity investments and/or the debt of a company by holding shares and/or bonds. Many of the investors are asset managers that hold these investments on behalf of their clients, the asset owners. Asset owners can be institutional investors, such as pension funds, insurance companies and endowments, as well as private investors.

### 1.1.4 Financial institutions

The financial institutions in our research include:

- **Commercial banks, investment banks and public banks** that provide loans and underwriting services.
- **Institutional investors**, such as pension funds, insurance companies and asset managers, as well as private investors. Investors invest in shares and bonds issued by companies. It is worth noting that asset managers hold investments on behalf of their clients, which can be both institutional investors and private investors.

The financial research aimed to identify Asian financial institutions in ASEAN countries and FFA countries (see the list of focus countries in section 1.1.1), as well as financial institutions from other regions, including Europe and North America, that are involved in financing or investing in the selected agribusiness companies (see section 1.1.2).

### 1.1.5 Data sources

The financial research used Refinitiv (formerly known as Thomson Reuters EIKON), Bloomberg, IJGlobal, Trade Finance Analytics, company publications and media archives to identify financial relationships.

### 1.1.6 Research period

Different time periods were used for different types of financing. For bonds and shareholdings, the most recent filings for May 2021 were retrieved. For corporate loans and issuance underwriting, the research focused on 1 January 2016 to 31 December 2020.

### 1.1.7 Segment and geographic adjusters

If financing could not be attributed to a specific country and/or activity, segment adjusters and geographic adjusters were calculated to provide a better picture of actual flows to FFA partner countries.

#### ***Segment adjusters***

Segment adjusters were developed for all companies and for every year financing was identified. That is, the proportion of each company's business activities in the focus sectors was calculated for the year in which a financial relationship was identified.

These segment adjusters were not applied to project finance. When project finance was identified, this research investigated the purpose of the finance to determine whether it fell within the scope of this research, and how to attribute it to the relevant sector. When there was insufficient detail, project finance was combined with segment adjusters. When the financing had multiple use of proceeds, including project finance, the deal was treated as financing for general corporate purposes and segment adjusters were applied.

Segment adjusters were developed using segment reporting in annual reports to the fullest extent possible, complemented by information from company publications and websites, and estimates where necessary. The following financial indicators were used in order of preference:

- Segment capital expenditures/additions to non-current assets;
- Segment liabilities;
- Segment assets;
- Segment revenues; and
- Segment profits/losses.

Where financing was identified at the subsidiary level, the research identified segment activities using company publications. Where financing was identified for a financing vehicle, the group-level adjuster was applied.

#### ***Geographic adjusters***

Geographic adjusters were developed for all companies and for every year financing was identified to adjust for activities in multiple countries. A similar approach was used to calculate the geographic adjusters as the segment adjusters.

Geographic adjusters were not applied to project finance. When project finance was identified, we investigated the location of the project finance to determine whether it fell within the scope of this research, and how to attribute it to a specific focus country. When there was insufficient detail, project finance was treated with the geographic adjuster. When the identified financing had multiple use of proceeds, the deal was treated as financing for general corporate purposes and the geographic adjuster was applied.

Where financing was identified at the subsidiary level, the location of its activities was determined using company publications. Where financing was identified for a financing vehicle, the group-level adjuster was applied.

Geographic adjusters were developed using the segment, geographic and general reporting in annual reports to the fullest extent possible, complemented by information from company publications and websites, and estimates where necessary. Geographic adjusters were applied to segment adjusters.

The following financial indicators were used to calculate geographic adjusters, in order of preference:

- Geographic capital expenditures/additions to non-current assets;
- Geographic liabilities;
- Geographic assets;
- Geographic revenues; and
- Geographic profits/losses.

The combined segment and geographic adjusters were applied to every identified financial relationship.

### 1.1.8 Limitations

There were several limitations to the financial flows research. First, although every effort was made to retrieve and consolidate data from various sources, gaps in the figures are still likely. The financial databases used for the research contain primarily syndicated credit and project finance. Company disclosures and company registers were also used for this research. However, the level of detail from these sources depends on the requirements in the relevant jurisdictions and the transparency of the companies. Some jurisdictions require full details of credit relationships to be disclosed in the annual reports of listed companies (e.g. Indonesia, Pakistan) while others do not (e.g. Japan, Singapore). Some jurisdictions register charges/loans to some degree in company registries (e.g. Malaysia, Singapore) while others do not (e.g. Cambodia, Indonesia, Philippines).

As a result, bilateral credit flows between a bank and a company are not fully covered by the data. The gap is likely relatively large for the agriculture sector given that it primarily attracts bilateral lending not covered by the financial databases.

Investments in bonds and shares could only be identified if the company had issued publicly traded bonds and shares. Publicly listed agribusinesses are more common in some of the countries (e.g. Indonesia, Singapore, Malaysia and India) and less common in others (e.g. Brunei, Cambodia and Laos).

Another limitation was with the segment and geographic adjusters. These were applied to estimate the value of financing for agricultural activities in the selected countries. However, precisely how the companies used this capital could not be determined by the sources used in the research. Only the companies can provide this information.

## 1.2 Overview of financial flows to agribusinesses

This section focuses on credits and investments provided by financial institutions from ASEAN and FFA countries (“focus countries”, see section 1.1.1) and from other regions (including Europe and North America) to the selected agribusiness companies.

### 1.2.1 Creditors

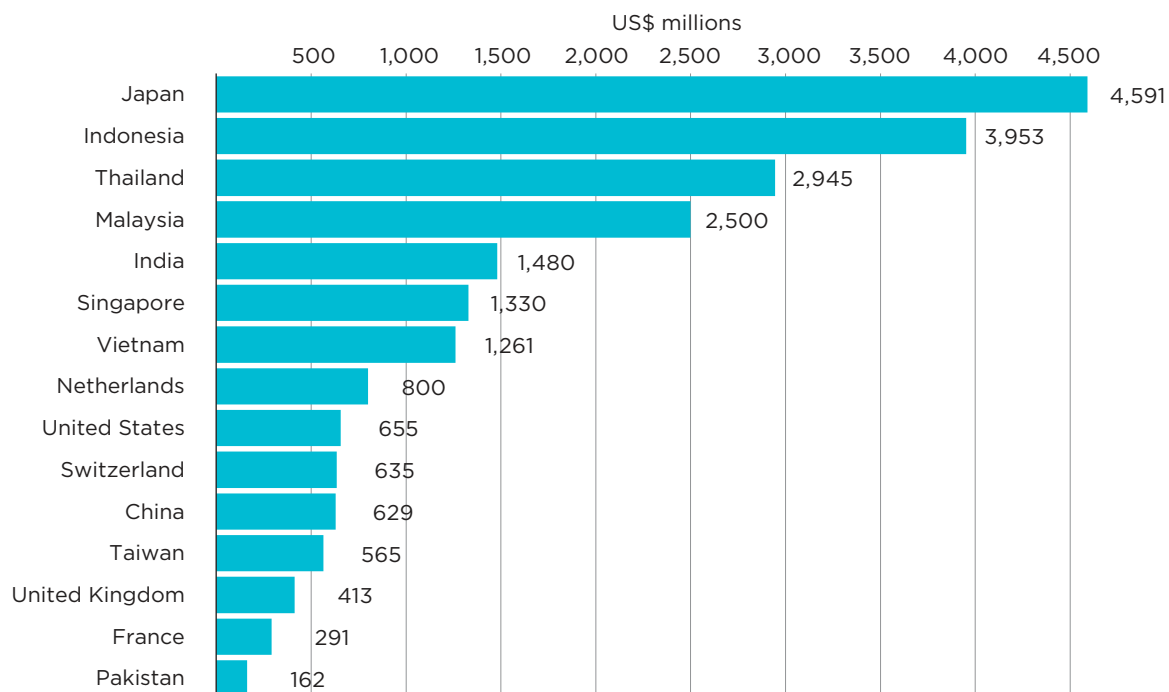
Between January 2016 and December 2020, the selected agribusiness companies received a total of USD 22.6 billion in loans and underwriting attributable to their agribusiness activities from financial institutions active worldwide. Eighty-one per cent of this amount was provided by financial institutions from the focus countries, which provided \$18.3 billion in loans and underwriting services to selected agribusiness companies. The remaining 19% was provided by financial institutions from countries in other regions:

- Half of the remaining 19% came from financial institutions in Europe, primarily from

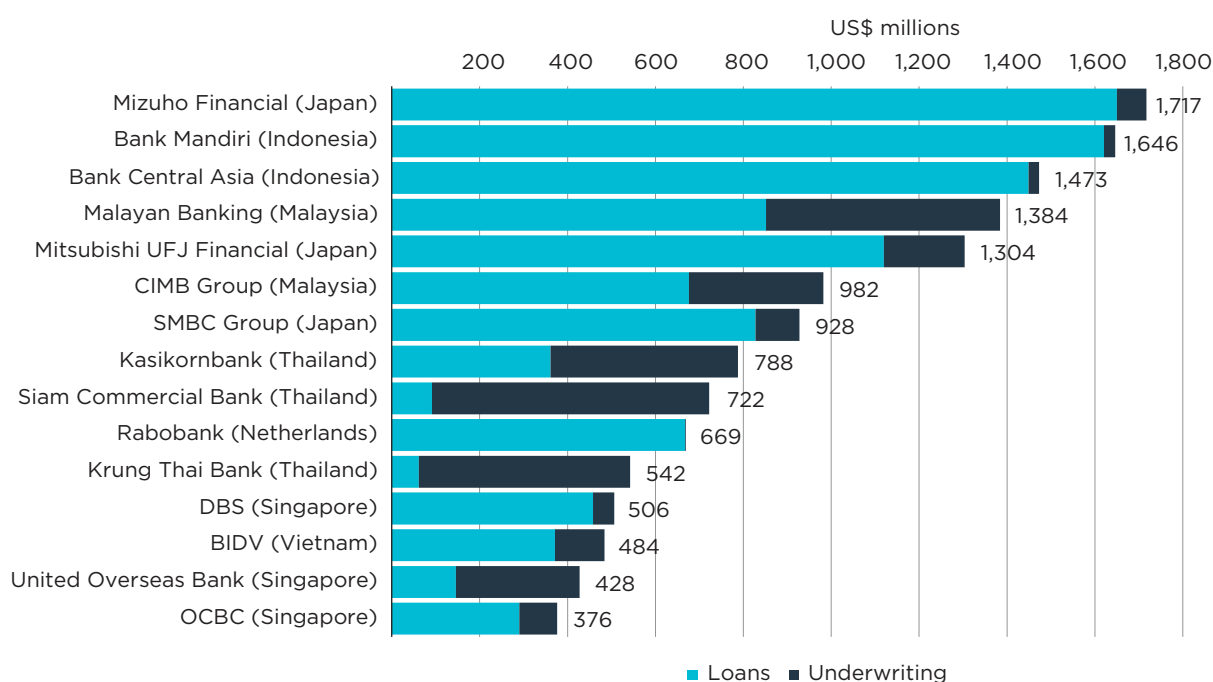
the Netherlands (\$800 million), Switzerland (\$635 million), the United Kingdom (\$413 million) and France (\$291 million).

- The other half came mainly from financial institutions based in the United States (\$655 million), China (\$629 million) and Taiwan (\$565 million).

**FIGURE 5: Top 15 Asian agribusiness creditor countries (2016–2020, USD millions)**



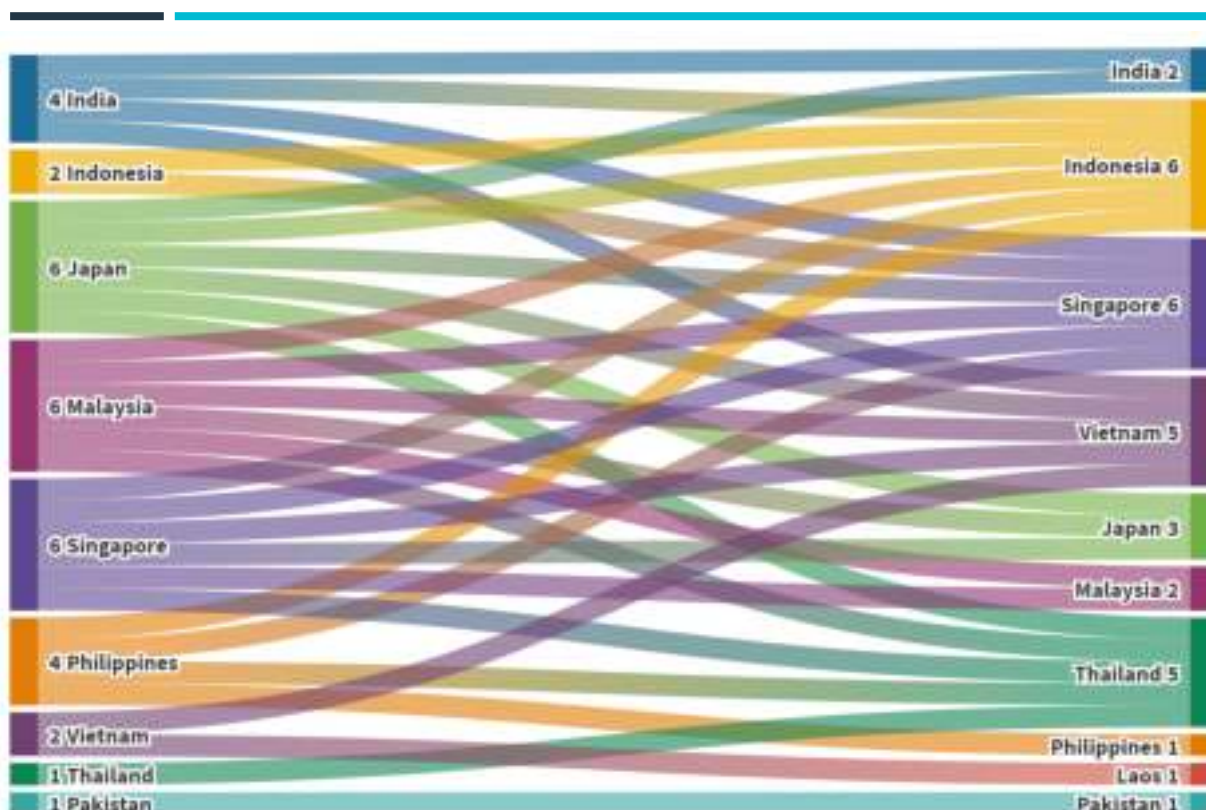
**FIGURE 6: Top 15 Asian agribusiness creditors (2016–2020, USD millions)**



The top 15 creditors of the selected companies accounted for more than 60% of all financing. Figure 5 shows that 14 of the top 15 creditors in the selected companies were Asian financial institutions, including three from Japan, three from Singapore, three from Thailand, two each from Indonesia and Malaysia and one from Vietnam. The only non-Asian financial institution was a Dutch bank, Rabobank.

Figure 7 shows that financial institutions from Japan, Malaysia and Singapore provided the most agriculture-attributable credit to the other countries. Companies based in Singapore and Indonesia received credit from the highest number of other countries, followed by companies in Vietnam and Thailand. No credit was identified from financial institutions in the selected countries to companies active in Brunei, Cambodia and Myanmar.

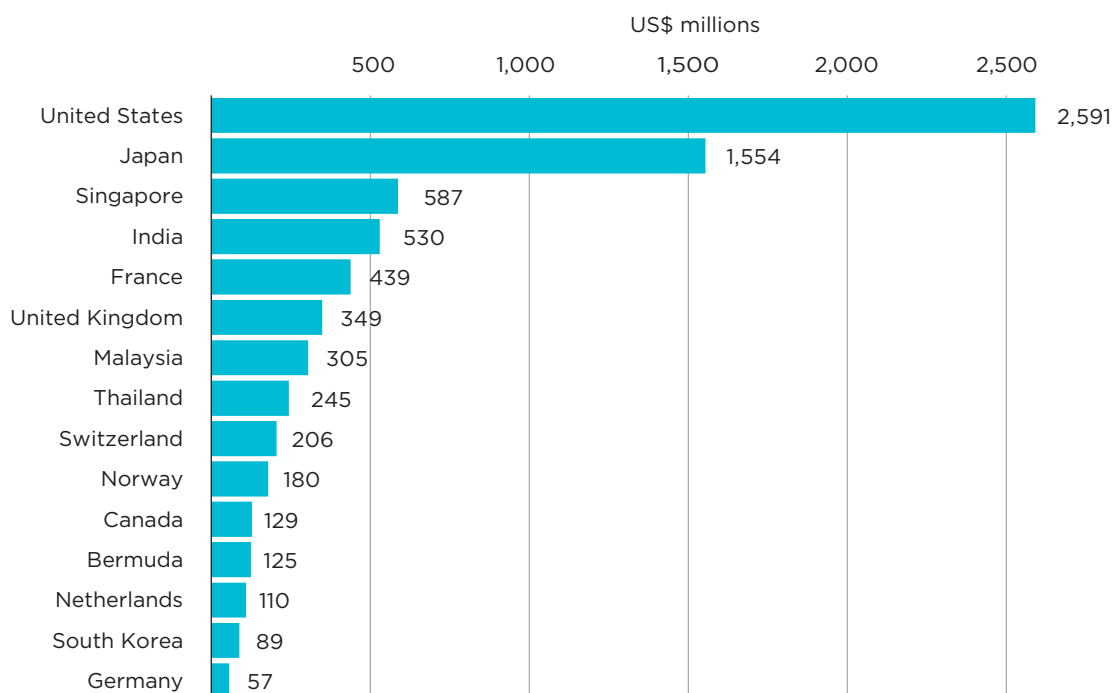
**FIGURE 7: Credit flows from Asian banks to Asian agribusinesses (number of countries providing credit (left) and number of countries receiving credit (right), 2016–2020)**



### 1.2.2 Investors

Overall, the selected companies received nearly \$7.8 billion in investments in bonds and shares from financial institutions worldwide. Forty-two per cent of this amount was provided by financial institutions from ASEAN and FFA countries. The remaining 58% was invested by financial institutions from other regions, primarily the US. American investors invested \$2.6 billion in the selected companies, or one-third of the total investments. Investors from European countries (France, United Kingdom, Switzerland, Norway, Netherlands, Germany, Sweden, Finland, Denmark, Italy) and Australia accounted for 18% of investments.

**FIGURE 8: Asian agribusiness investors, top 15 countries of origin (May 2021, USD millions)**



**FIGURE 9: Top 15 Asian agribusiness investors (May 2021, USD millions)**

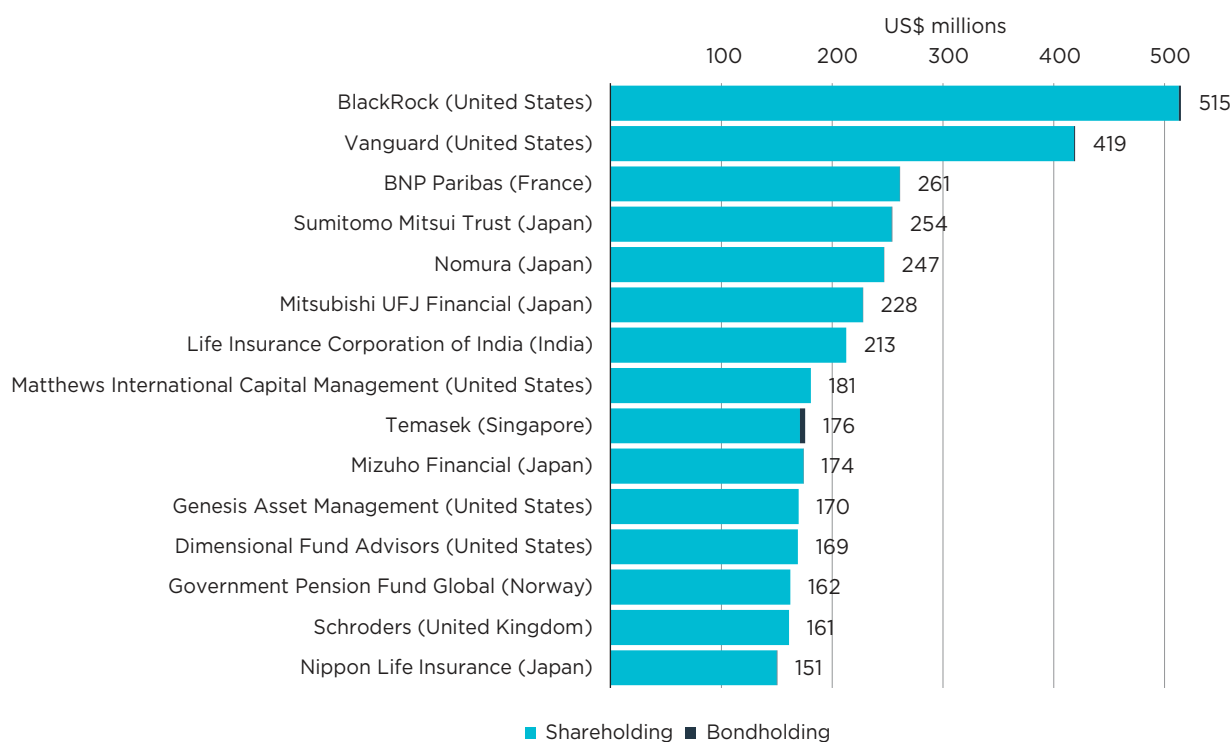
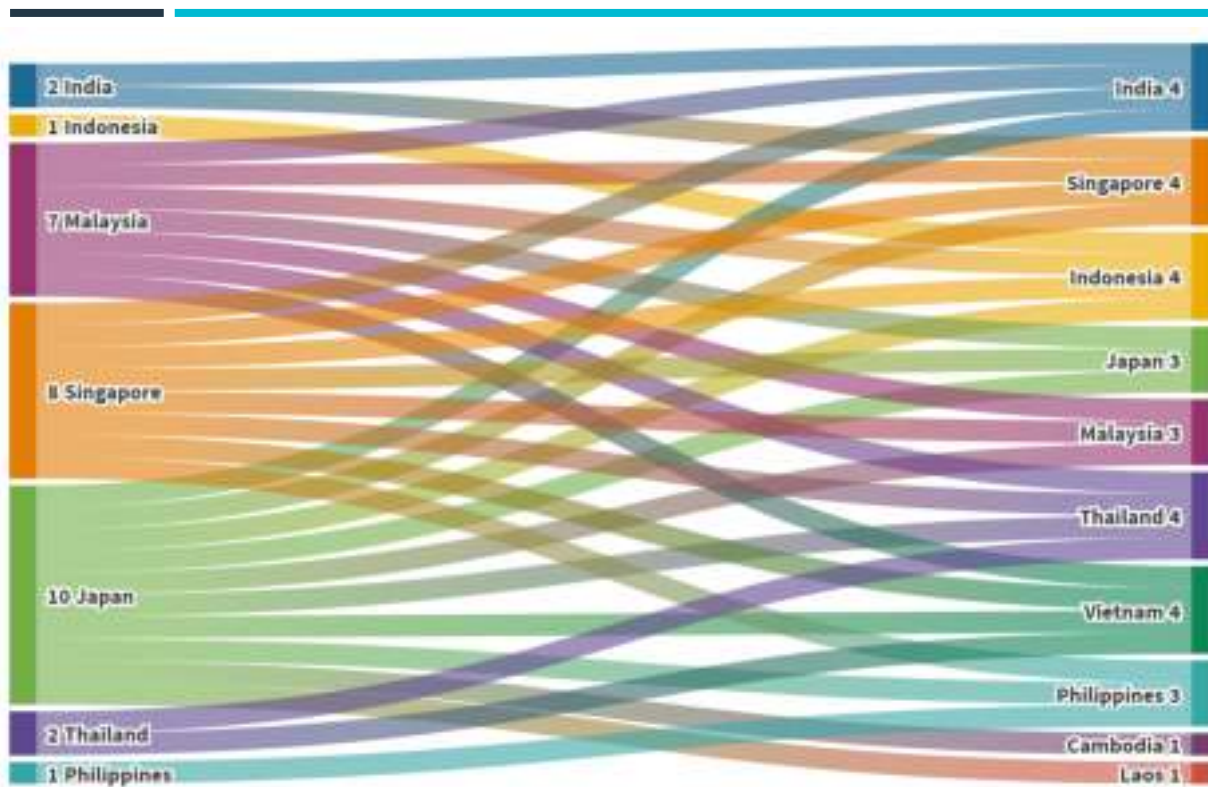


Figure 8 shows that eight of the top 15 investors in the selected companies were financial institutions from the US and Europe. The two largest investors were US asset managers Blackrock and Vanguard, which invested \$515 million and \$419 million, respectively, in shares and bonds of the selected companies. Among the European investors, French bank BNP Paribas (\$261 million in investments), the Government Pension Fund of Norway (\$162 million) and UK firm Schroders (\$161 million) were the largest investors.

Figure 10 shows that financial institutions from Japan, Malaysia and Singapore provided agriculture-attributable investments to the highest number of other countries in the study. Companies based in Singapore, Indonesia, Thailand, and Vietnam received investments from the highest number of other countries.

**FIGURE 10: Asian investment in agribusinesses (number of countries invested in (left) and number of countries invested by (right), May 2021, most recent filings)**



### 1.3 Financial flows to agribusinesses in each of the focus countries

This section provides information about credits and investments provided to agribusiness companies in each of the 13 focus countries (organized alphabetically). Each country section includes the main findings on credit and investments, the main countries of origin, the top 15 creditors (worldwide) and the top 15 investors (worldwide).

#### 1.3.1 Brunei

- **Creditors**

No loans and underwriting services to the selected companies were identified.

- **Investors**

No bonds or shareholdings attributable to companies engaged in agriculture in Brunei were identified in the period of study.

### 1.3.2 Cambodia

- **Creditors**

No loans and underwriting services to the selected companies were identified.

- **Investors**

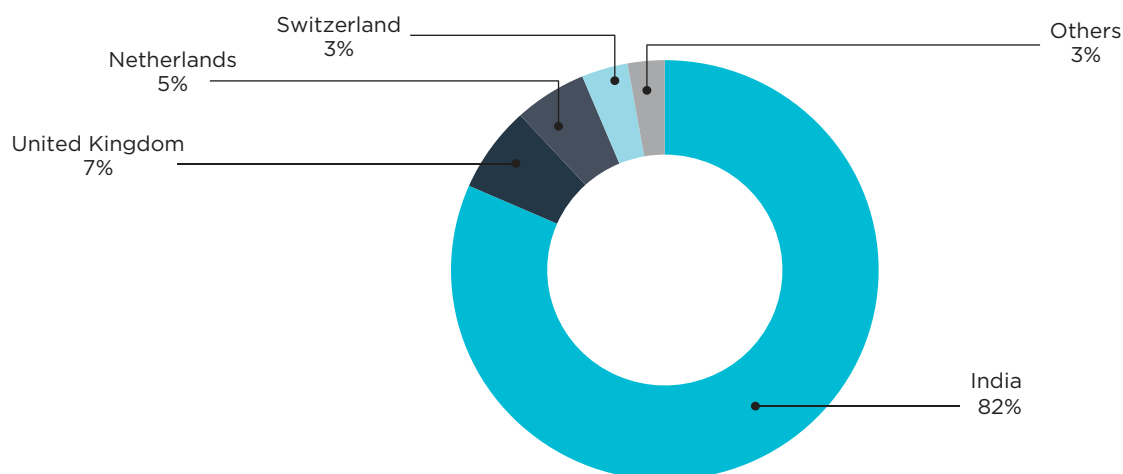
No bonds or shareholdings attributable to companies engaged in agriculture were identified in the period of study.

### 1.3.3 India

- **Creditors**

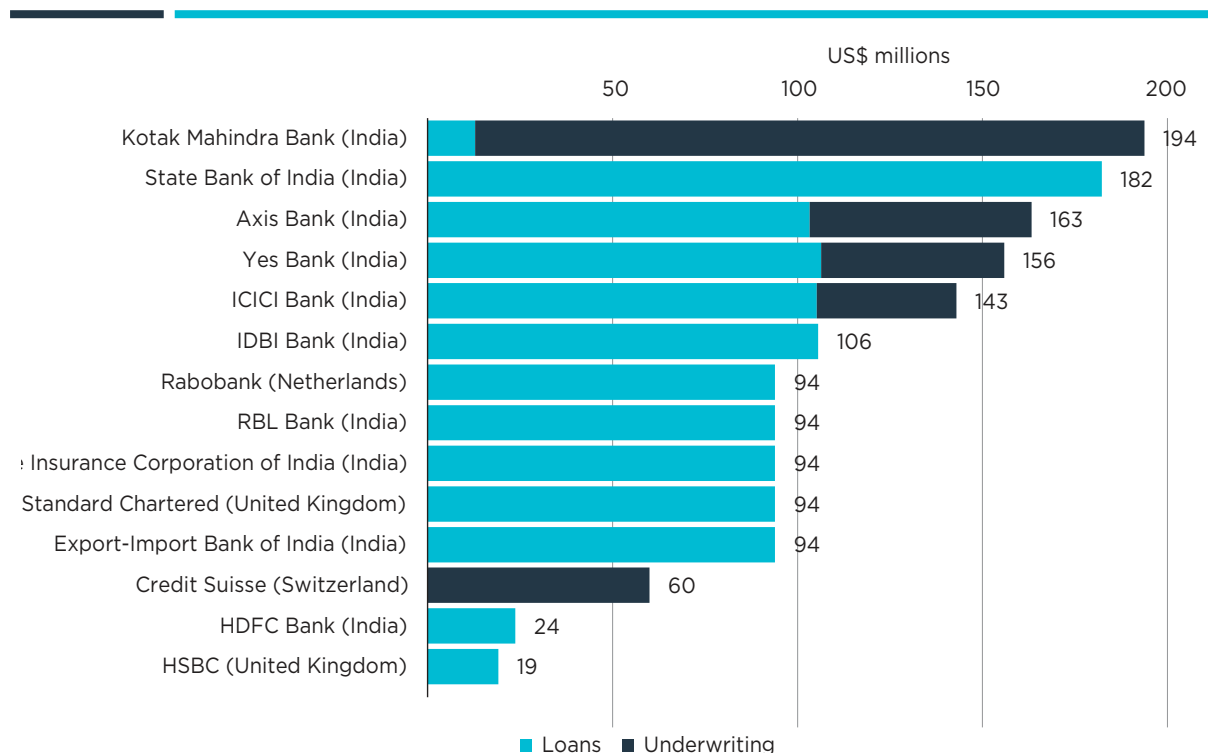
Between 2016 and 2020, companies active in upstream and midstream agriculture in India attracted \$1.7 billion in loans and underwriting services. Over three-quarters (76%) of this credit was in the form of loans and the remaining 24% was in the form of issuance underwriting services. Figure 11 shows that 82% (\$1.4 billion) of identified credit to the selected companies in India was provided by domestic financial institutions. Financial institutions from the United Kingdom and the Netherlands provided another seven per cent (\$113 million) and five per cent (\$94 million), respectively.

**FIGURE 11: India: Countries of origin of agricultural creditors (2016–2020)**



The top 15 agricultural creditors in India provided 90% of all identified credit between 2016 and 2020. Together, these financial institutions provided \$1.5 billion in loans and underwriting services attributable to agriculture in India (see Figure 12). The three largest creditors were all financial institutions from India. The largest creditor was Kotak Mahindra Bank, which provided loans and underwriting services worth \$194 million, followed by the State Bank of India (\$182 million) and Axis Bank (\$163 million).

**FIGURE 12: India: Top 15 agricultural creditors (2016–2020, USD millions)**

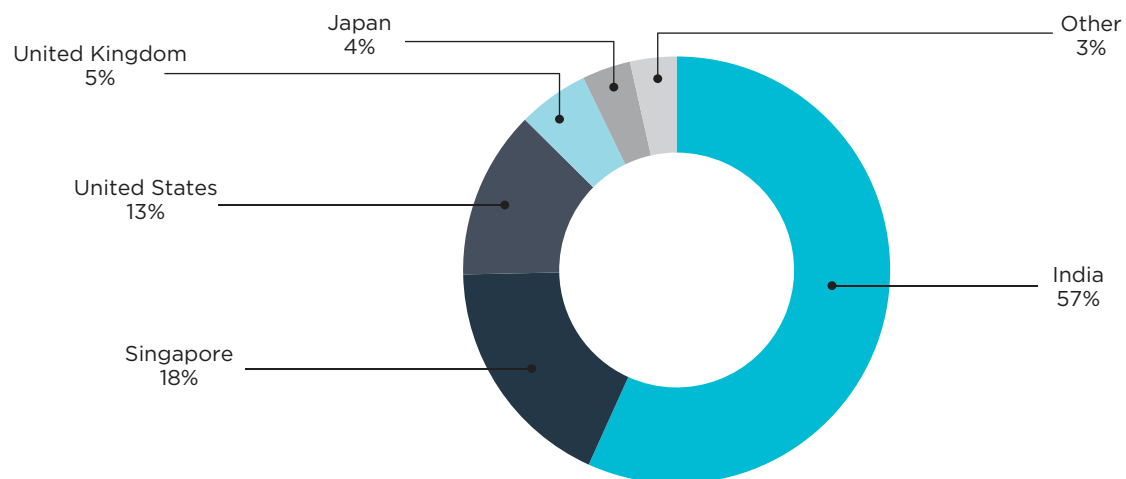


● **Investors**

As of the most recent filings in May 2021, financial institutions held \$933 million in agriculture-attributable bonds and shares issued by companies active in India. All these investments were in shareholdings.

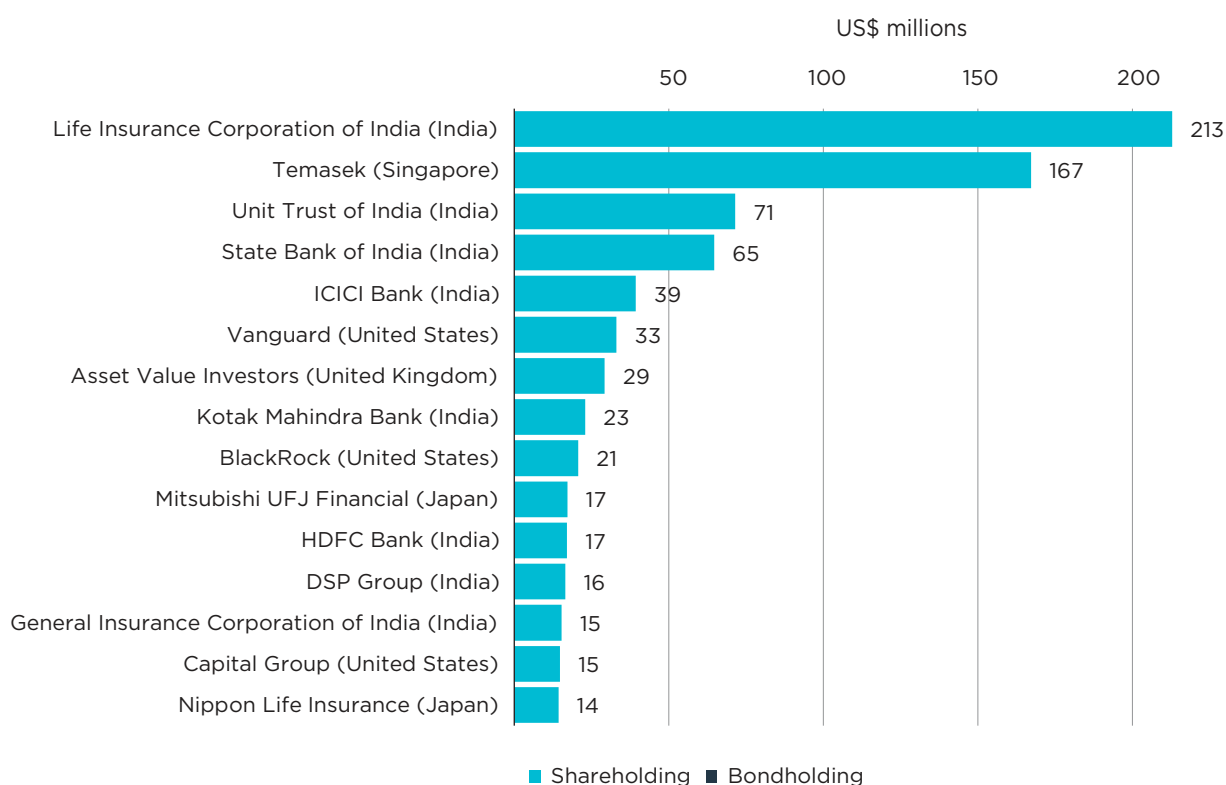
Figure 13 shows that more than half of these investments were made by financial institutions from India, followed by financial institutions from Singapore and the United States.

**FIGURE 13: India: Countries of origin of agricultural investors (May 2021, most recent filings)**



The top 15 investors held \$756 million in agriculture-attributable investments in the selected companies active in India. This accounts for 81% of identified investments. Figure 14 shows that the largest investor was the Life Insurance Corporation of India at \$213 million, followed by Temasek (\$167 million) and Unit Trust of India (\$71 million).

**FIGURE 14: India: Top 15 agricultural investors (May 2021, most recent filings, USD millions)**

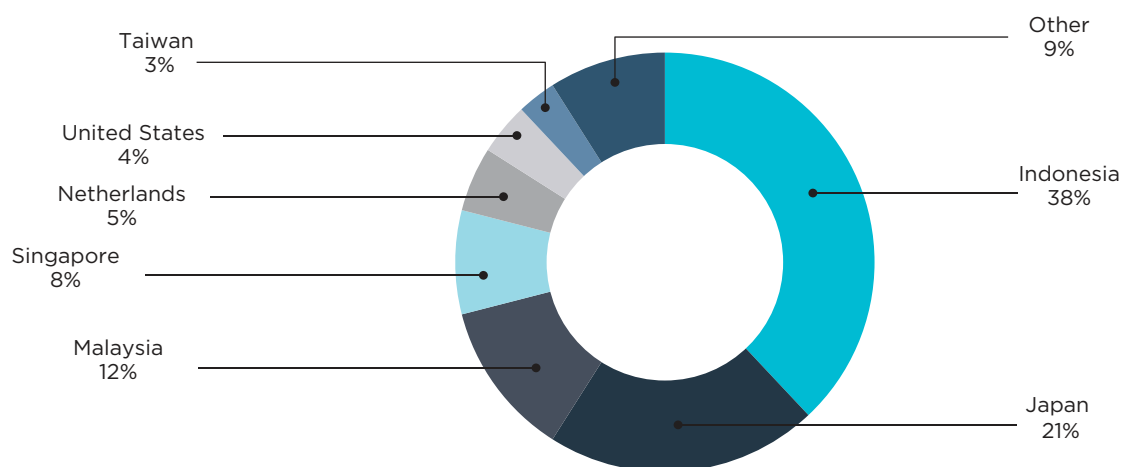


### 1.3.4 Indonesia

#### ● Creditors

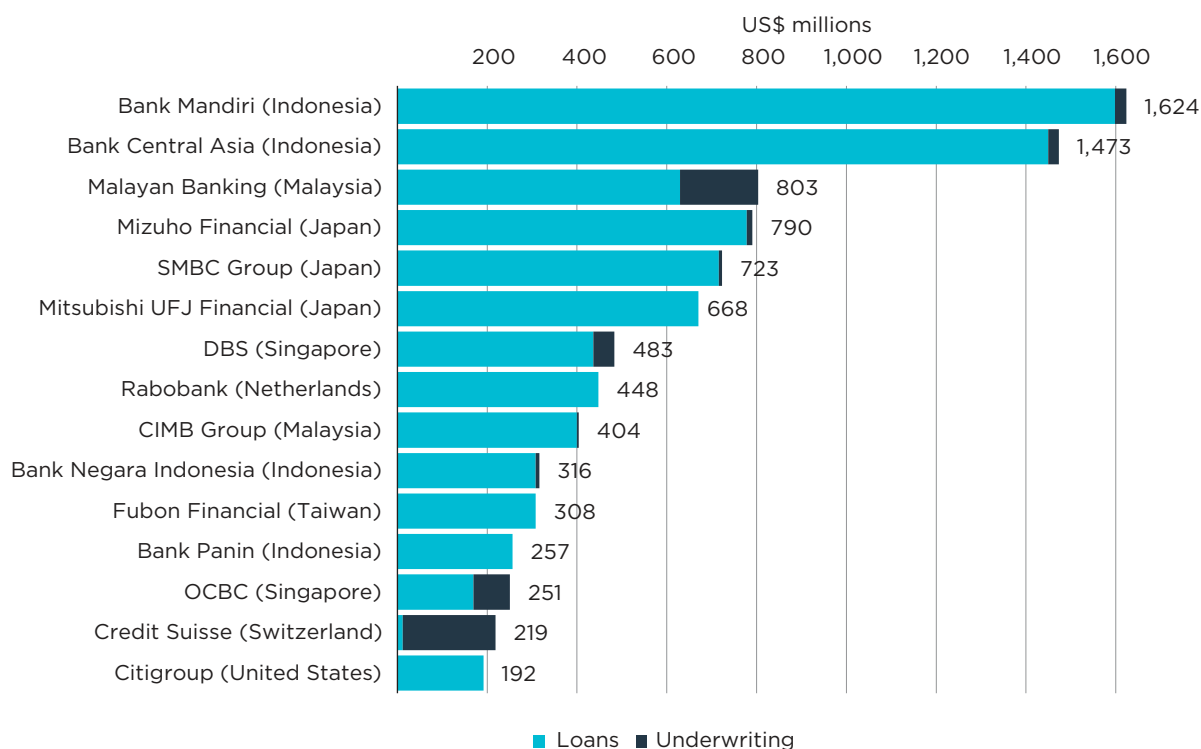
The selected agriculture companies active in Indonesia attracted agriculture-attributable loans and underwriting services of \$10.5 billion between 2016 and 2020. Ninety-one per cent of this credit was provided as loans and nine per cent as issuance underwriting services. Figure 15 shows that 38% of identified credit (\$3.9 billion) was provided by financial institutions from Indonesia, followed by financial institutions from Japan (\$2.2 billion) and Malaysia (\$1.2 billion).

**FIGURE 15: Indonesia: Countries of origin of agricultural creditors (2016–2020)**



The top 15 agricultural creditors in Indonesia provided 85% of all identified agriculture-attributable loans and underwriting services. Together these financial institutions provided \$9 billion in credit between 2016 and 2020. The largest creditor was Bank Mandiri, which provided \$1.6 billion in loans and underwriting services (see Figure 16), followed by Bank Central Asia (\$1.5 billion) and Malayan Banking/Maybank (\$803 million).

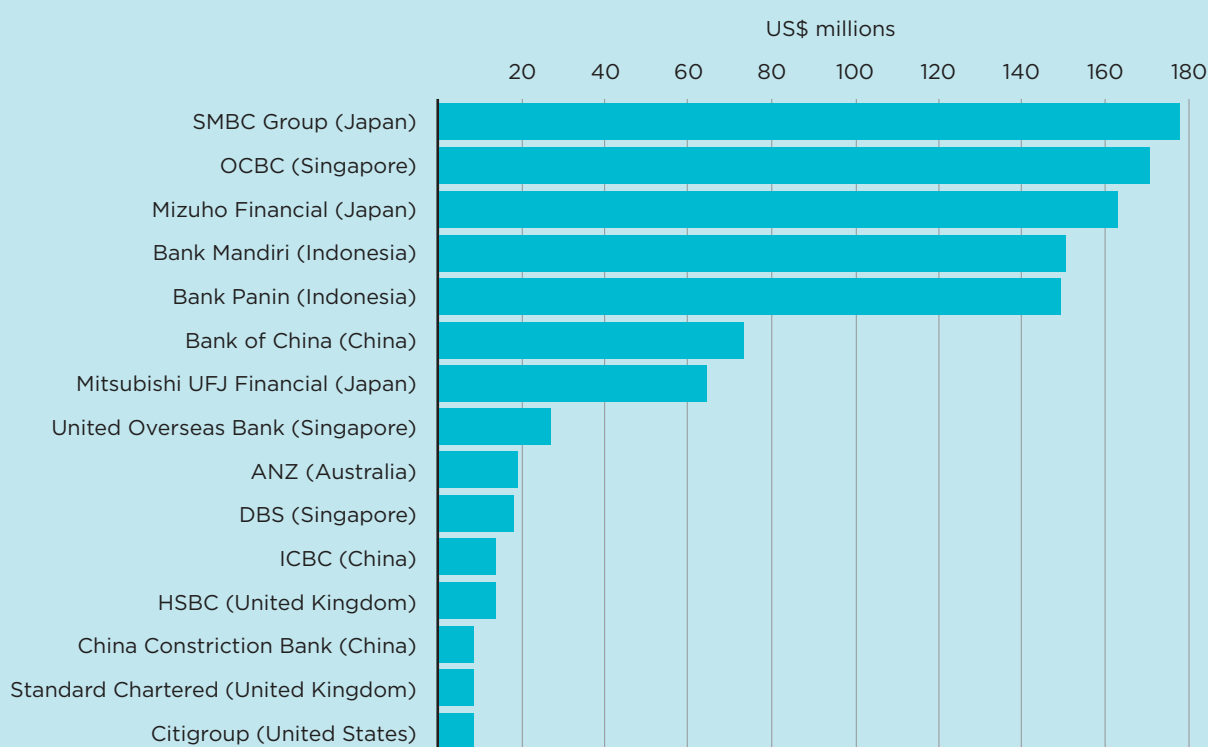
**FIGURE 16: Indonesia: Top 15 agricultural creditors (2016–2020, USD millions)**



## FINANCING OF ASTRA AGRO LESTARI

Palm oil company Astra Agro Lestari was not included in the financial research, but the Annex presents the findings of a case study conducted by ResponsiBank Indonesia Coalition, part of the Fair Finance Asia network. In that case study, ResponsiBank investigated, with the support of Profundo for the financial research, the procedural unfairness of palm oil plantations demonstrated towards smallholder farmers in Central Sulawesi. The study focused on three subsidiaries of PT Astra Agro Lestari located in the Morowali and Morowali Utara districts of Central Sulawesi. Figure 17 shows the top 15 palm oil creditors of Astra Agro Lestari between 2016 and 2020. The five largest creditors were banks from Japan, Singapore and Indonesia.

**FIGURE 17: Top 15 palm oil creditors of Astra Agro Lestari (2016-2020 April, US\$ million)**

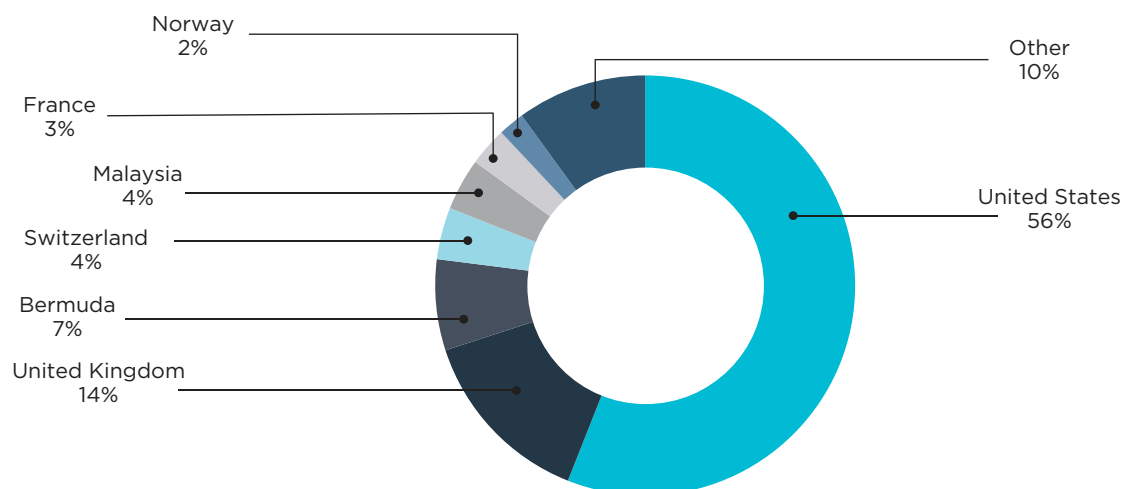


Source: Forest & Finance (n.d.), "Explore the data", online: <https://forestsandfinance.org/>, viewed in December 2020

### ● Investors

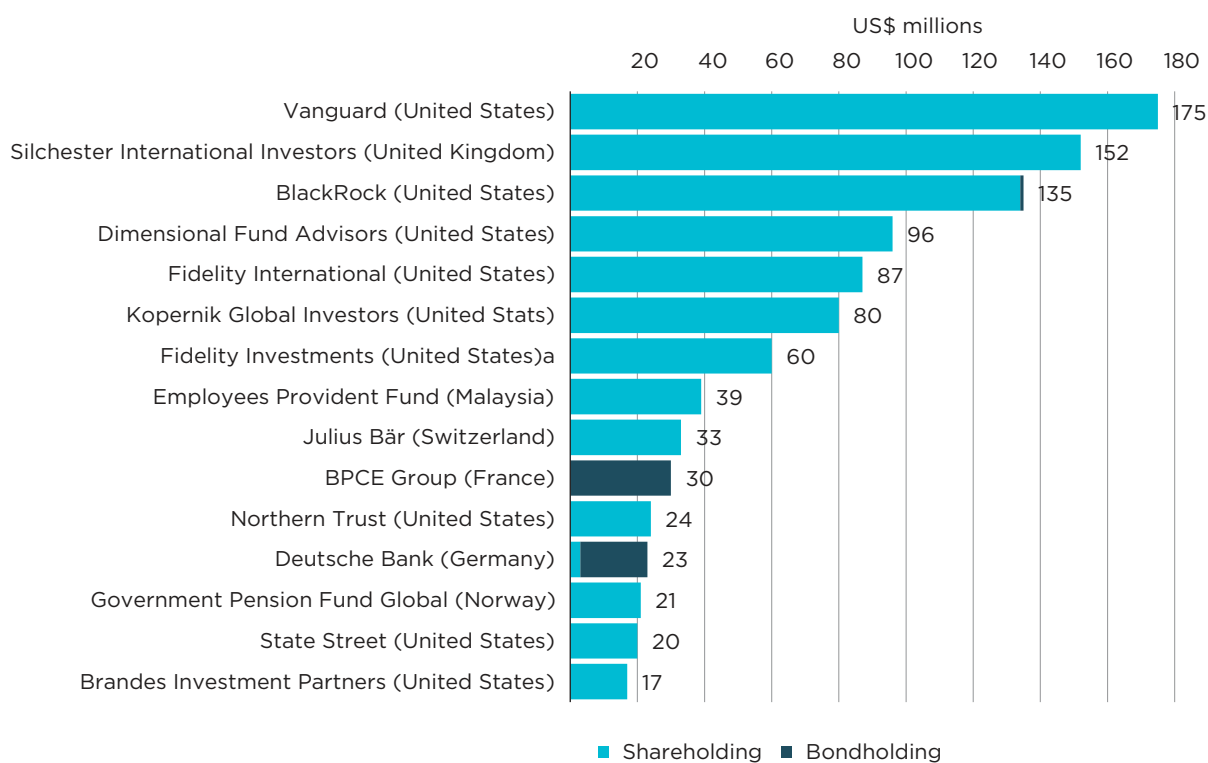
As of the most recent filings in May 2021, investors held \$1.3 billion in agriculture-attributable bonds and shares issued by companies active in Indonesia. Ninety-four per cent of these investments were in the form of shares. Figure 18 shows that financial institutions from the United States accounted for more than half (56%) of these investments, followed by investors from the United Kingdom and Bermuda.

**FIGURE 18: Indonesia: Countries of origin of agricultural investors (May 2021, most recent filings)**



The top 15 investors held approximately \$990 million in agriculture-attributable bonds and shares of the selected companies in Indonesia. This accounts for more than three-quarters of the identified investments. Figure 19 shows that the largest investor was the US asset manager Vanguard, which had \$175 million in agriculture-attributable investments in Indonesia, followed by Silchester International Investors (\$152 million) and BlackRock (\$135 million).

**FIGURE 19: Indonesia: Top 15 agricultural investors (May 2021, most recent filings, USD millions)**

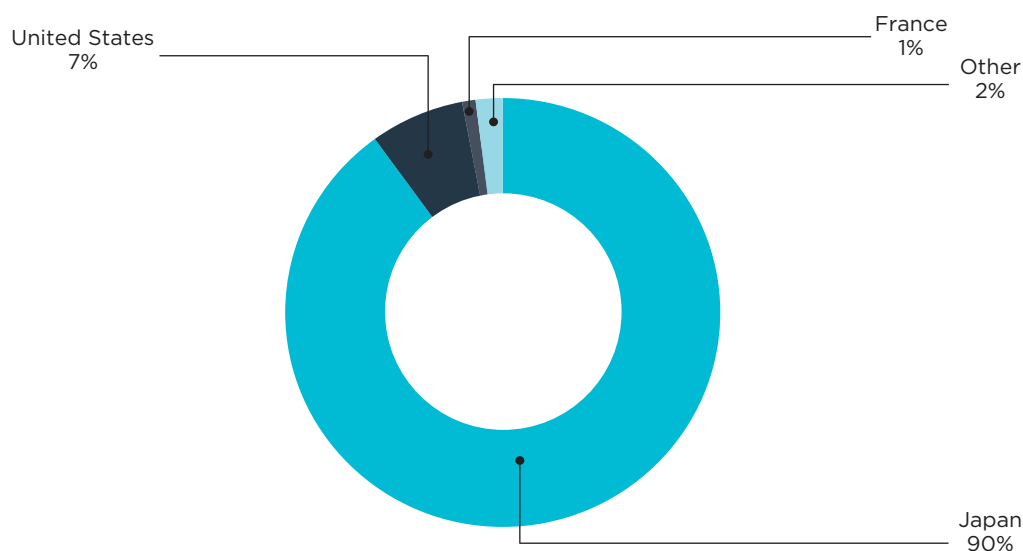


### 1.3.5 Japan

- **Creditors**

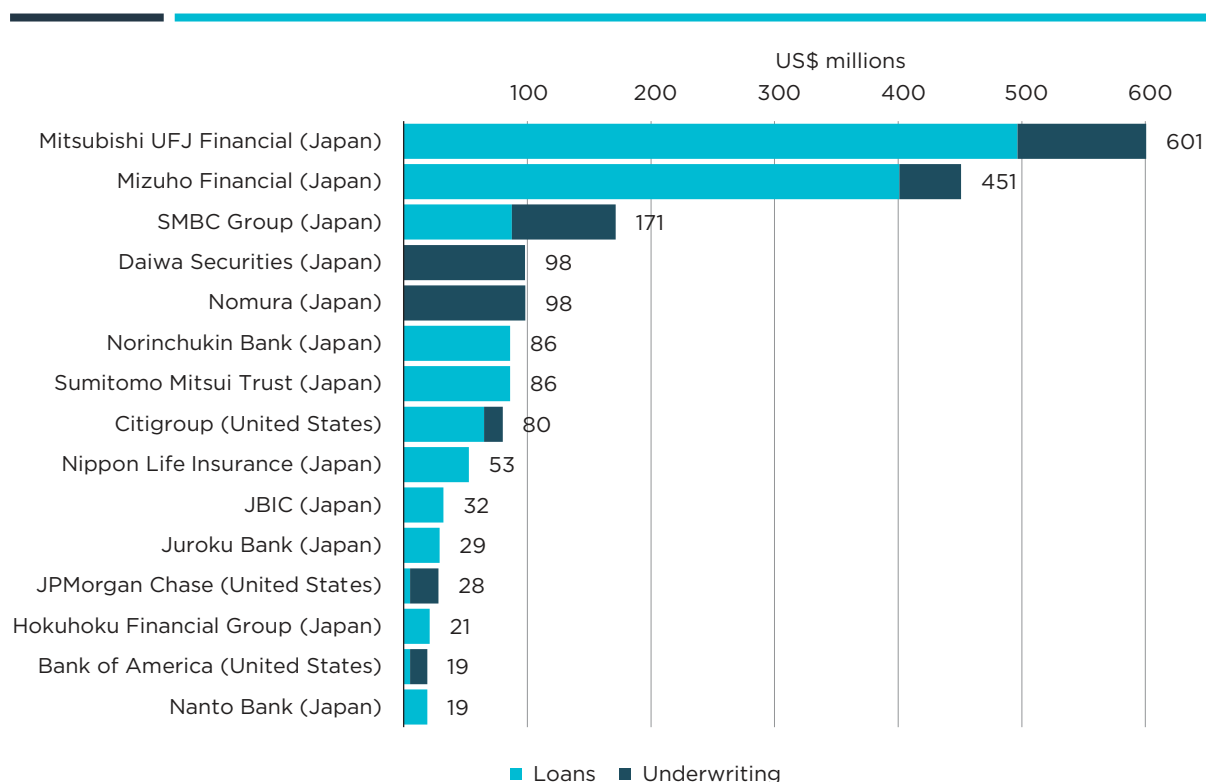
Between 2016 and 2020, companies engaged in agribusiness in Japan attracted \$1.94 billion in loans and underwriting services attributable to agriculture. Nearly three-quarters (74%) were provided as loans, with the remaining 26% provided as issuance underwriting services. Figure 20 shows that domestic financial institutions accounted for more than 90% of identified credit to the selected companies. Together, these financial institutions provided \$1.7 billion in loans and underwriting services, followed by financial institutions from the US (\$132 million) and France (\$25 million).

**FIGURE 20: Japan: Countries of origin of agricultural creditors (2016–2020)**



The top 15 agribusiness creditors in Japan provided 97% of all identified loans and underwriting services to the selected companies. Together, these financial institutions provided \$1.87 billion in agriculture-attributable credit in Japan. Figure 21 shows that the largest creditor was Mitsubishi UFJ Financial, which provided \$601 million in loans and underwriting services in the period of study. It was followed by Mizuho Financial (\$451 million) and SMBC Group (\$171 million).

**FIGURE 21: Japan: Top 15 agricultural creditors (2016–2020, USD millions)**



● **Investors**

As of the most recent filings in May 2021, investors held \$1.8 billion in agriculture-attributable bonds and shares issued by companies active in Japan. Nearly all these investments were in the form of shares.

**FIGURE 22: Japan: Countries of origin of agricultural investors (May 2021, most recent filings)**

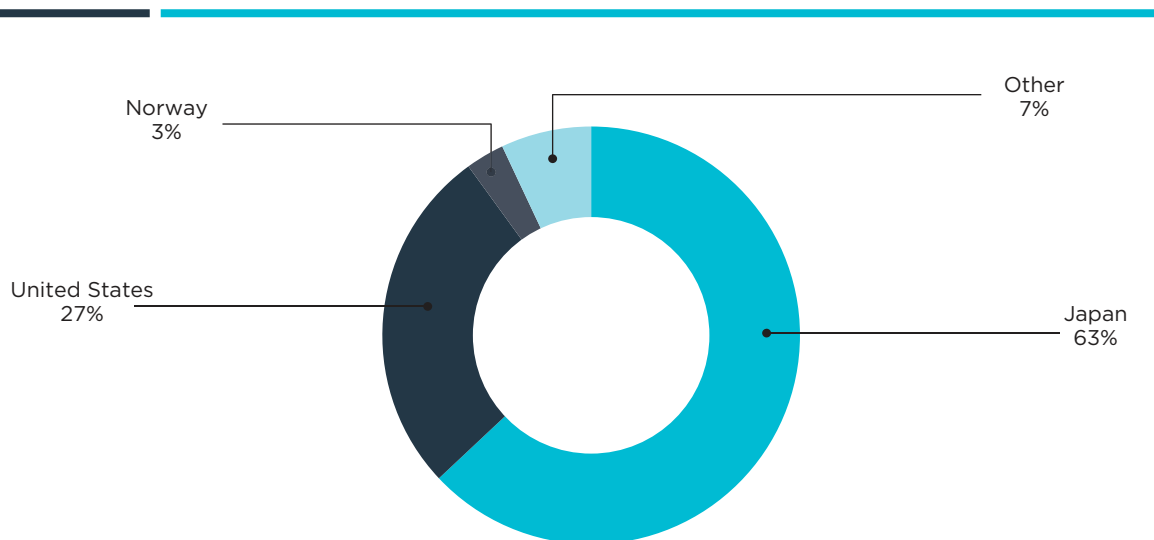
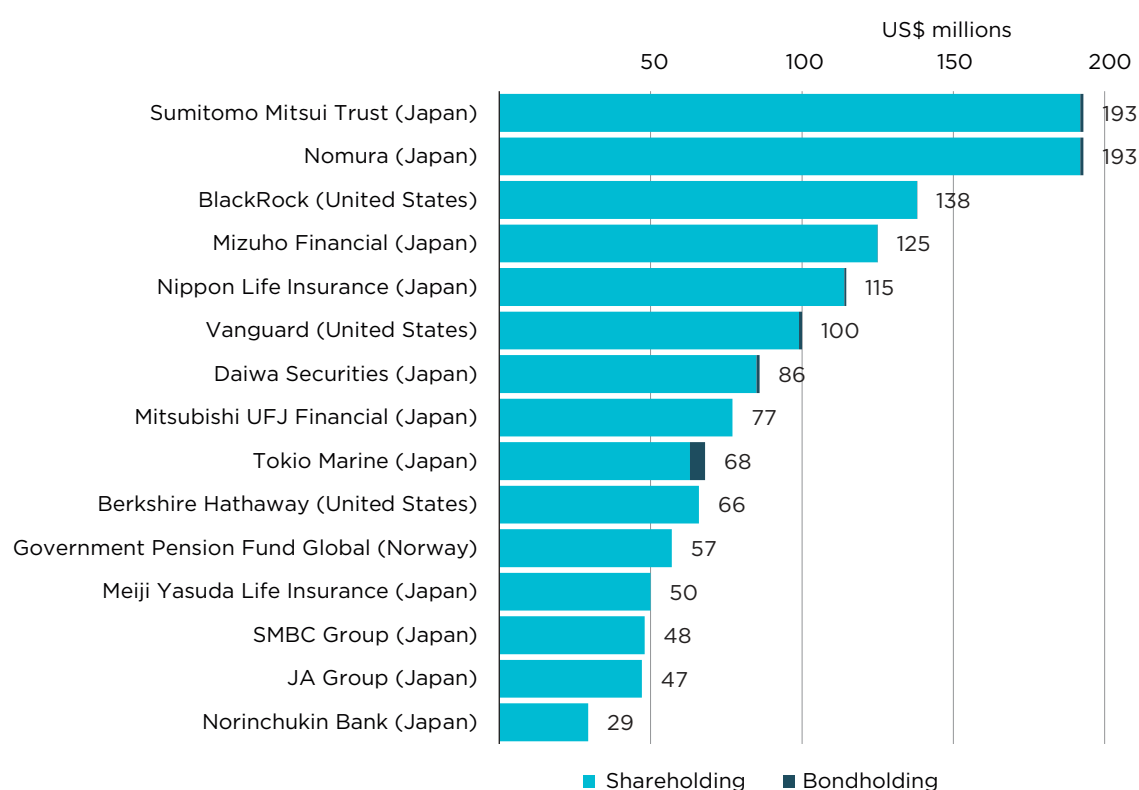


Figure 22 shows that financial institutions from Japan accounted for almost two-thirds of these investments (63%), followed by investors from the United States (27%) and Norway (3%).

The top 15 investors held approximately \$1.4 billion in agriculture-attributable bonds and shares of the selected companies in Japan. This accounts for more than three-quarters of identified investments (79%). Figure 23 shows that the largest investor was Japan's Sumitomo Trust with \$193 million in agriculture-attributable investments, followed by Nomura (\$193 million) and BlackRock (\$138 million).

**FIGURE 23: Japan: Top 15 agricultural investors (May 2021, most recent filings, USD millions)**



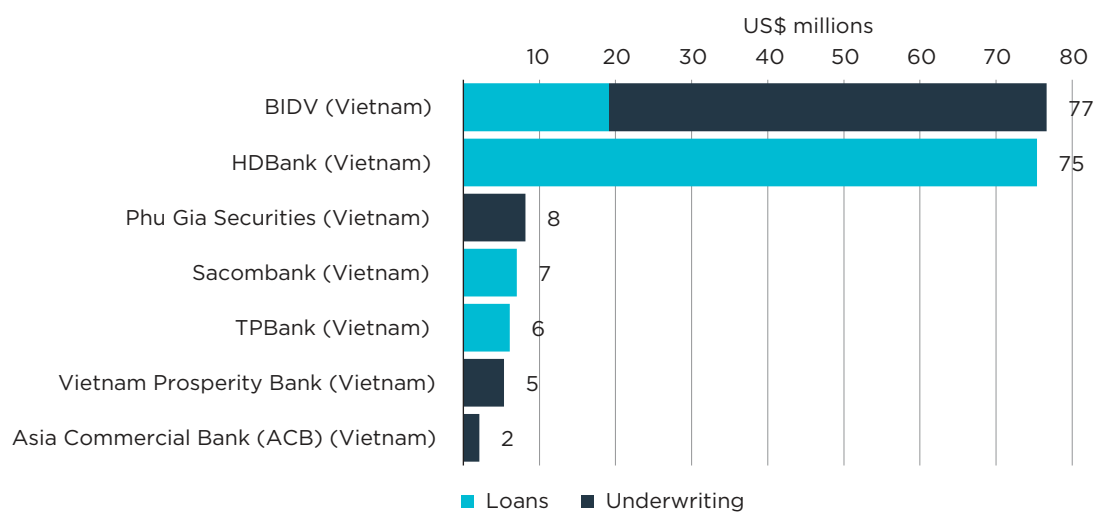
### 1.3.6 Laos

#### • Creditors

Between 2016 and 2020, agribusinesses active in Laos attracted \$181 million in agriculture-attributable loans and underwriting services. All this credit was provided by financial institutions from Vietnam.

Figure 24 shows that the largest creditors were BIDV (\$77 million) and HDBank (\$75 million).

**FIGURE 24: Laos: Top agricultural creditors (2016–2020, USD millions)**



● **Investors**

No investments in bonds and shares issued by the selected companies active in Laos were identified.

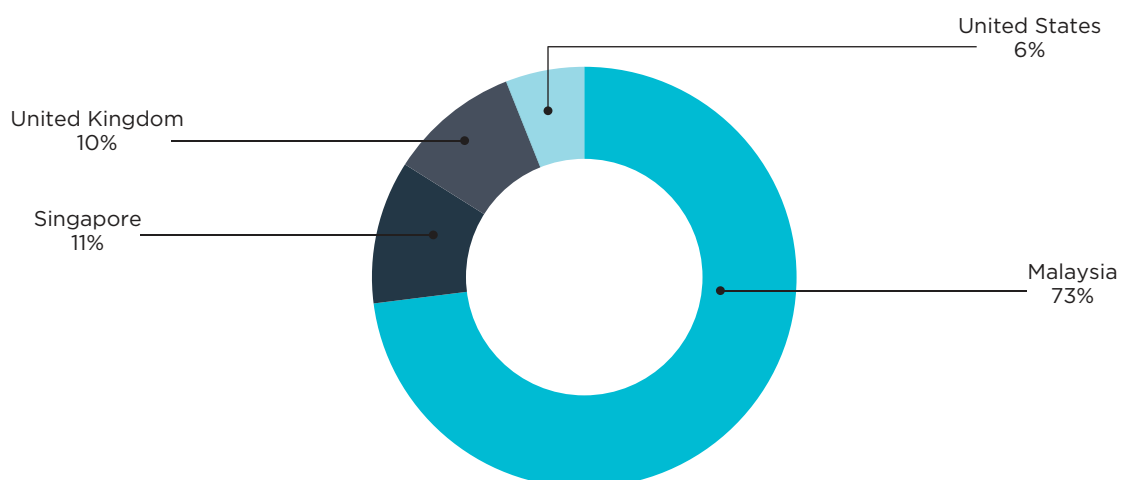
**1.3.7 Malaysia**

● **Creditors**

Between 2016 and 2020, companies engaged in agribusiness in Malaysia attracted \$913 million in loans and underwriting services attributable to agriculture.

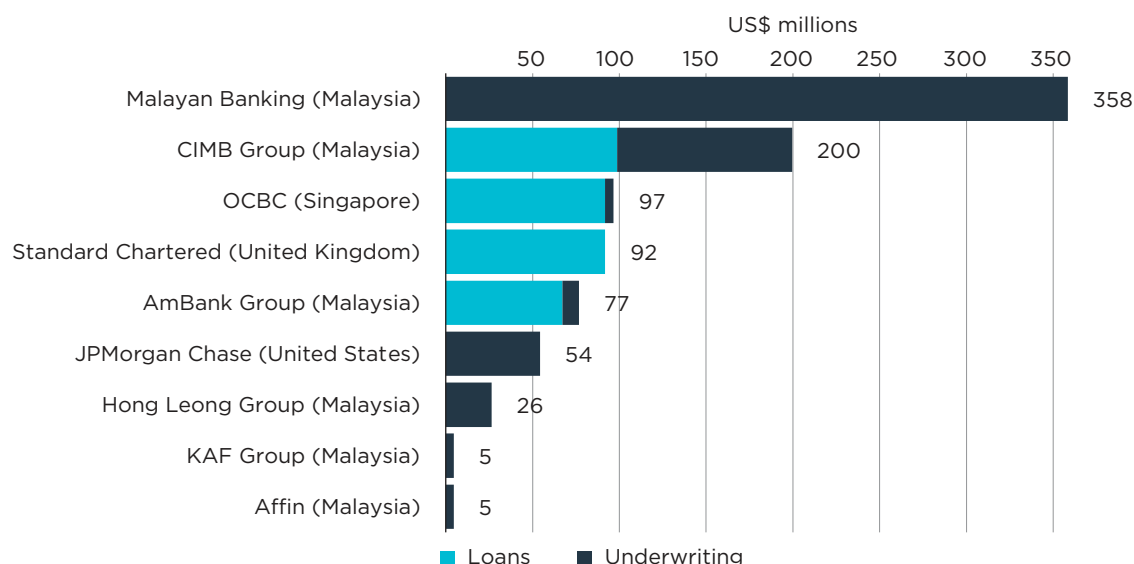
Figure 25 shows that domestic financial institutions accounted for almost three-quarters of identified agriculture-attributable credit to companies active in Malaysia, followed by financial institutions from Singapore and the United Kingdom.

**FIGURE 25: Malaysia: Countries of origin of agricultural creditors (2016–2020)**



The top agribusiness creditors in Malaysia provided all the identified loans and underwriting services to the selected companies. Figure 26 shows that the largest creditor was Malayan Banking/Maybank, which provided \$358 million in loans and underwriting services to the selected companies in the period of study. It was followed by CIMB Group (\$200 million) and OCBC (\$97 million).

**FIGURE 26: Malaysia: Top agricultural creditors (2016–2020, USD millions)**



● **Investors**

As of the most recent filings in May 2021, investors held \$498 million in agriculture-attributable bonds and shares issued by companies active in Malaysia.

**FIGURE 27: Malaysia: Countries of origin of agricultural investors (May 2021, most recent filings)**

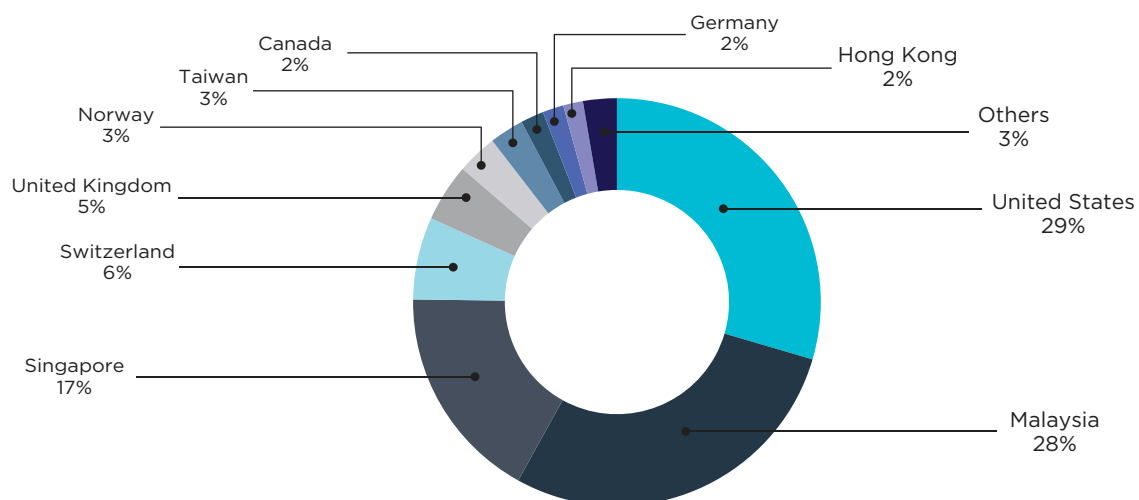
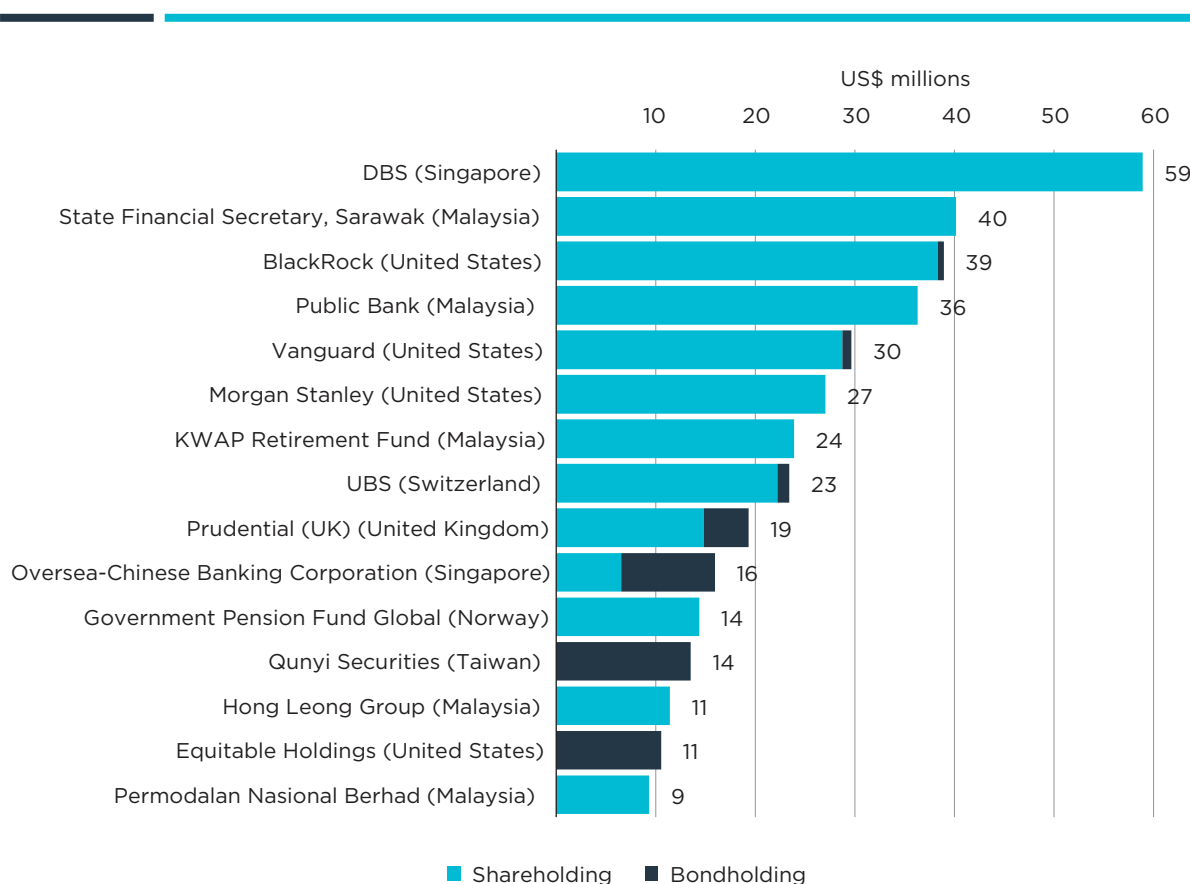


Figure 27 shows that financial institutions from the US accounted for 29% of these investments, followed by investors from Malaysia (28%) and Singapore (17%).

The top investors held all identified agriculture-attributable bonds and shares of the selected companies in Malaysia. Figure 28 shows that the largest investor was Singapore’s DBS with \$59 million in agriculture-attributable investments in Malaysia, followed by the State Financial Secretary of Sarawak (\$40 million) and BlackRock (\$39 million).

**FIGURE 28: Malaysia: Top agricultural investors (May 2021, most recent filings, USD millions)**

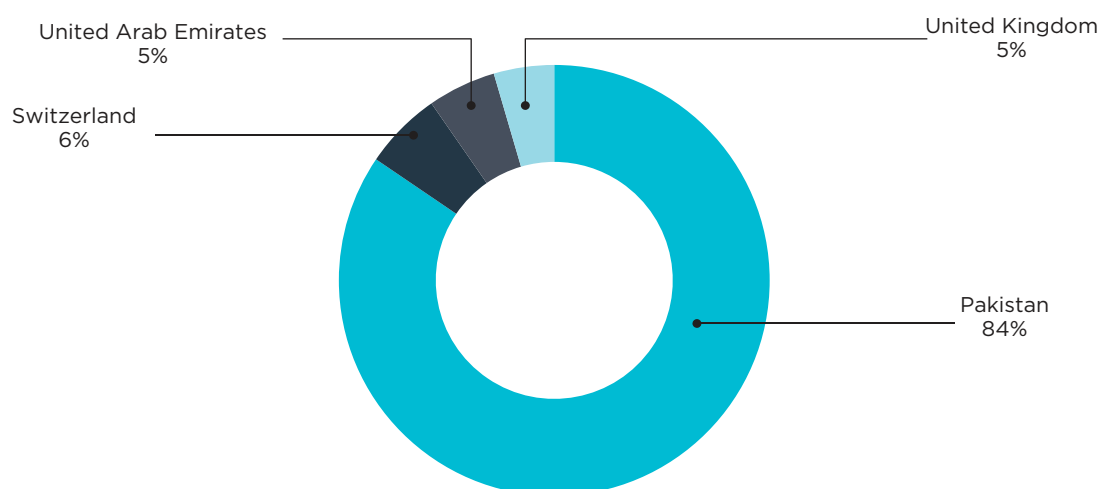


### 1.3.8 Pakistan

- Creditors**

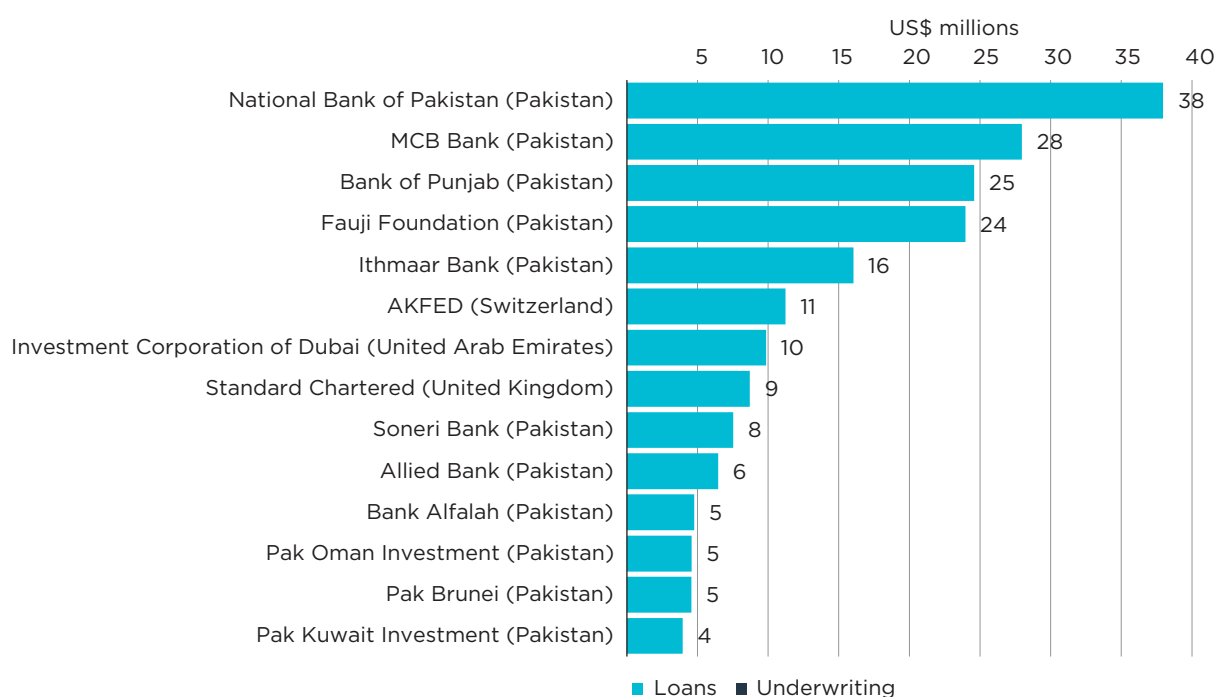
Between 2016 and 2020, agribusinesses active in Pakistan attracted \$192 million in loans and underwriting services attributable to agriculture. All this credit was provided in the form of loans. As Figure 29 shows, financial institutions from Pakistan provided 84% of identified loans and underwriting services attributable to agriculture (\$162 million), followed by financial institutions from Switzerland (\$11 million) and United Arab Emirates (\$10 million).

**FIGURE 29: Pakistan: Countries of origin of agricultural creditors (2016–2020)**



Fourteen creditors provided all identified agriculture-attributable loans and underwriting services to the selected agriculture companies active in Pakistan. Eleven of the top 14 creditors were financial institutions from Pakistan. Figure 30 shows that the largest creditor was the National Bank of Pakistan, which provided loans and underwriting services attributable to agriculture worth \$38 million in the period of study. It was followed by MCB Bank (\$28 million) and Bank of Punjab (\$25 million).

**FIGURE 30: Pakistan: Top agricultural creditors (2016–2020, USD millions)**



● **Investors**

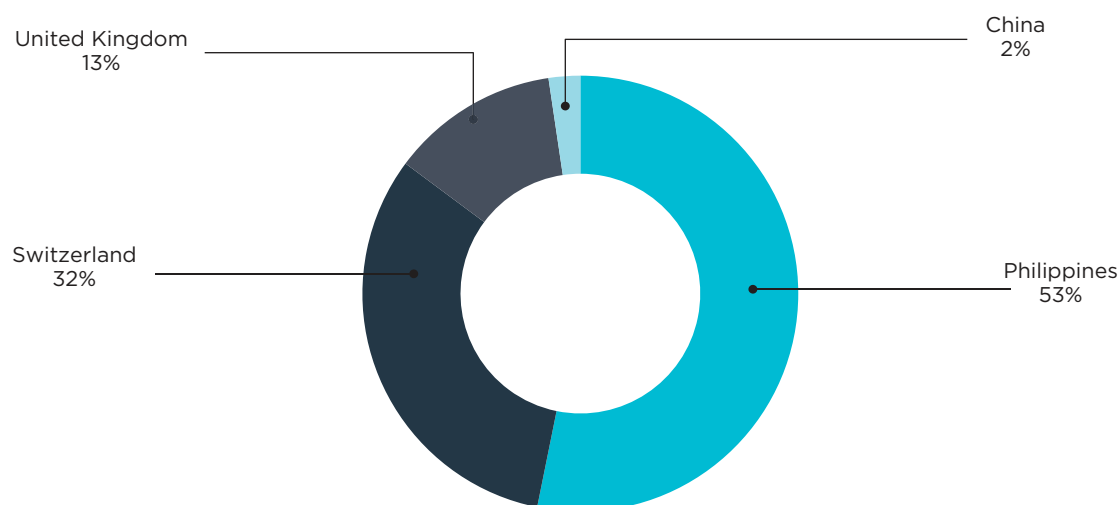
No investments in bonds and shares issued by the selected companies active in Pakistan were identified.

### 1.3.9 Philippines

#### • Creditors

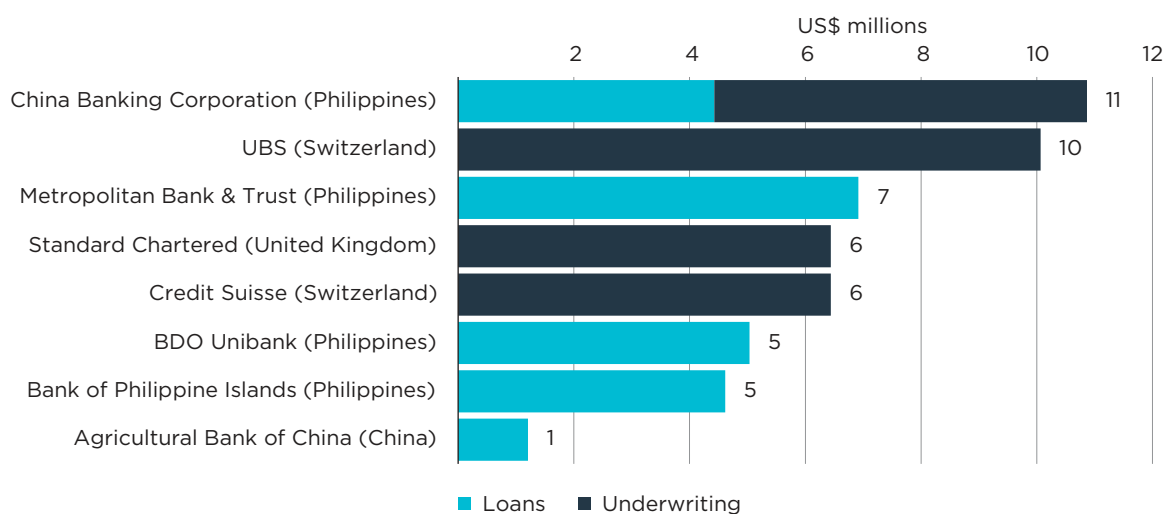
Between 2016 and 2020, financial institutions provided \$52 million in loans and underwriting services attributable to agriculture in the Philippines. Forty-three per cent of this credit was provided in the form of loans and the remaining 57% in issuance underwriting services. Figure 31 shows that financial institutions from the Philippines provided 53% of all agriculture-attributable credit to the selected companies. Together, these financial institutions provided \$27 million in loans and underwriting services to the selected agribusiness companies, followed by financial institutions from Switzerland (\$17 million) and the United Kingdom (\$6 million).

**FIGURE 31: Philippines: Countries of origin of agricultural creditors (2016–2020)**



Eight creditors were identified (see Figure 32). The largest was China Banking Corporation, which provided \$11 million in loans and underwriting services to the selected companies, followed by Swiss UBS (\$10 million) and Metropolitan Bank & Trust (\$7 million).

**FIGURE 32: Philippines: Top 15 agricultural creditors (2016–2020, USD millions)**



## FINANCING OF SUMIFRU

Sumifru was not included in the financial research, but the Annex presents the findings of a case study conducted by Fair Finance Japan on the violations of workers' rights by the banana company Sumifru in Mindanao, the second-largest island in the Philippines.

The major shareholder of Sumifru is currently Thornton Venture Ltd., an investment vehicle registered in the Republic of Mauritius, a well-known tax haven. Information on Thornton Venture Ltd is limited, which made it difficult to identify the financiers of Sumifru.

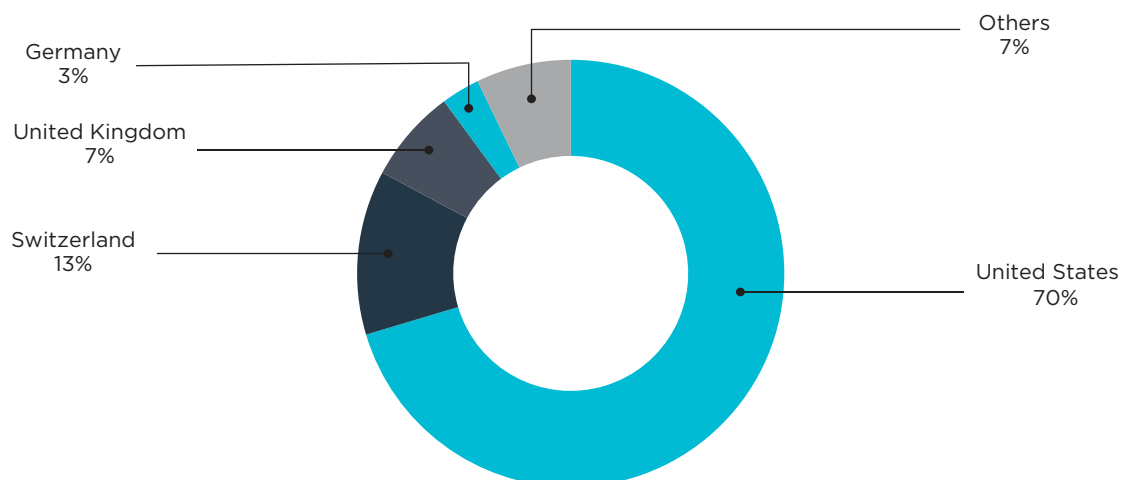
However, research conducted by Oxfam and Fair Finance Philippines has found that state-owned banks, such as Land Bank of the Philippines, have fostered unfair and inequitable relationships between farmer cooperatives and large companies like Sumifru. After Typhoon Bopha ravaged the provinces of Compostela Valley and Davao Oriental in Mindanao in 2012, the investigation found that Land Bank of the Philippines required agrarian reform beneficiaries (ARB) to enter tripartite agreements with Sumifru to secure loans for rehabilitation (for more details see section 1.2 of the Annex).

### ● *Investors*

As of the most recent filings in May 2021, investors held \$20 million in agriculture-attributable bonds and shares issued by companies active in the Philippines.

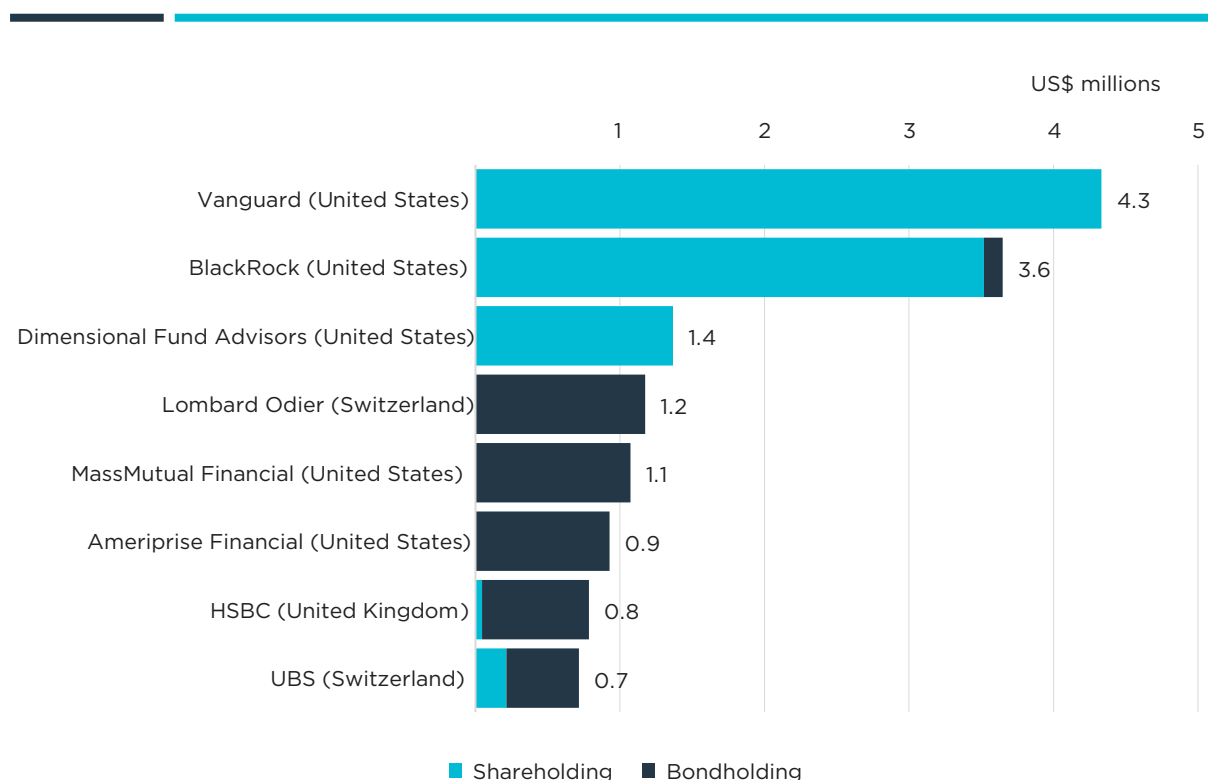
Figure 33 shows that financial institutions from the United States accounted for 70% of these investments, followed by investors from Switzerland (13%) and the United Kingdom (7%).

**FIGURE 33: Philippines: Countries of origin of agricultural investors (May 2021, most recent filings)**



The top investors held all identified agriculture-attributable bonds and shares of the selected companies in the Philippines. Figure 34 shows that the largest investor was US asset manager Vanguard with \$1.3 million in agriculture-attributable investments in the Philippines. It was followed by two other US asset managers: BlackRock (\$3.6 million) and Dimensional Fund Asset Managers (\$1.4 million).

**FIGURE 34: Philippines: Top agricultural investors (May 2021, most recent filings, USD millions)**



### 1.3.10 Singapore

#### • Creditors

Between 2016 and 2020, companies engaged in agriculture based in Singapore attracted \$194 million in loans and underwriting services attributable to agriculture. Figure 35 shows that financial institutions from Malaysia accounted for just under a quarter (23%) of identified credit to the selected companies. They were followed by financial institutions from the Netherlands (14%) and the United States (13%).

It must be noted that most agribusinesses based in Singapore have upstream activities elsewhere in the region. Since this research used segment and geographic adjusters (see section 1.1.7), agriculture-attributable financing in Singapore may seem relatively low.

**FIGURE 35: Singapore: Countries of origin of agricultural creditors (2016–2020)**

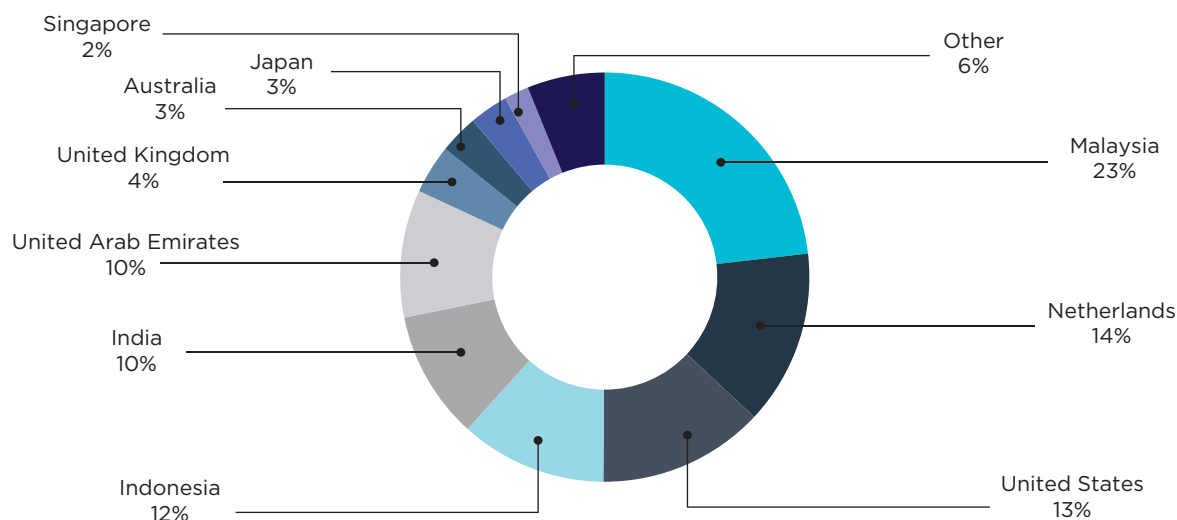
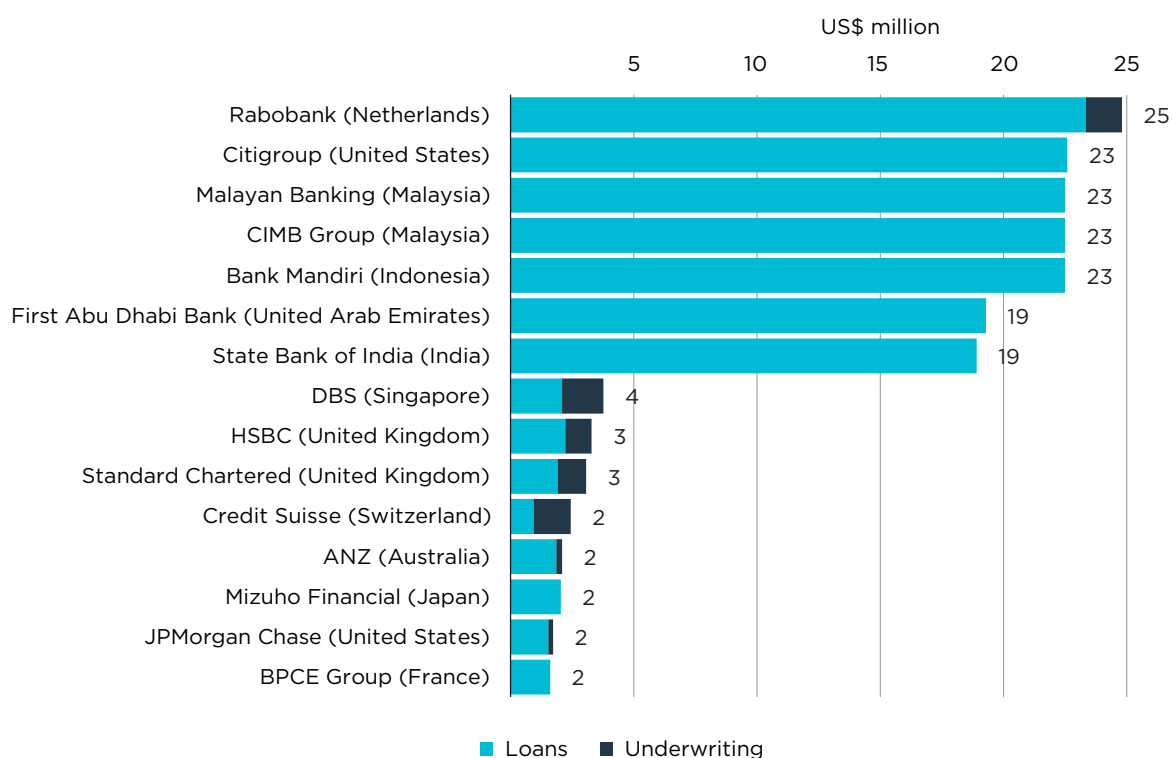


Figure 36 shows that the largest agricultural creditor of the selected companies was Rabobank, which provided \$25 million in loans and underwriting services in the period of study. It was followed by Citigroup (\$23 million) and Malayan Banking (\$23 million).

**FIGURE 36: Singapore: Top 15 agricultural creditors (2016–2020, USD millions)**

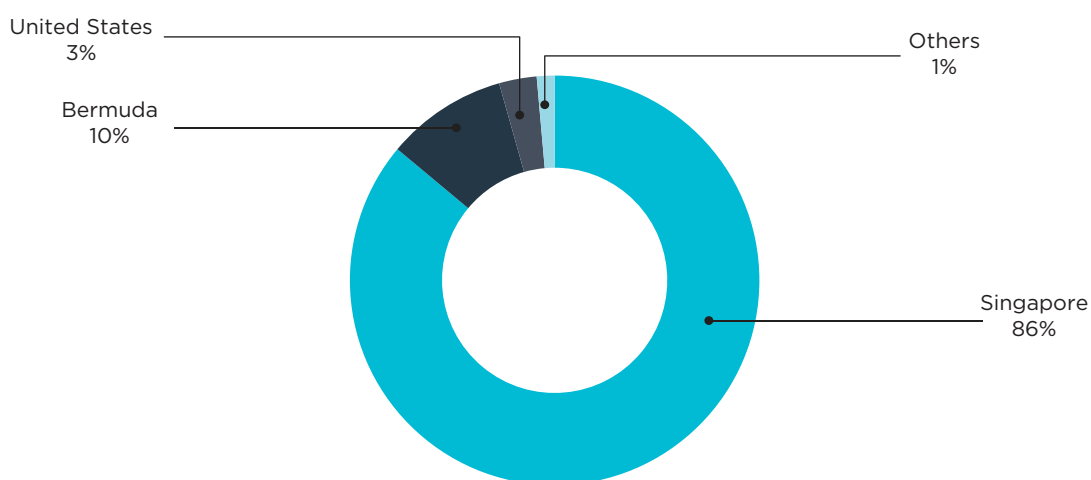


- **Investors**

As of the most recent filings in May 2021, investors held \$2 million in agriculture-attributable bonds and shares issued by companies active in Singapore.

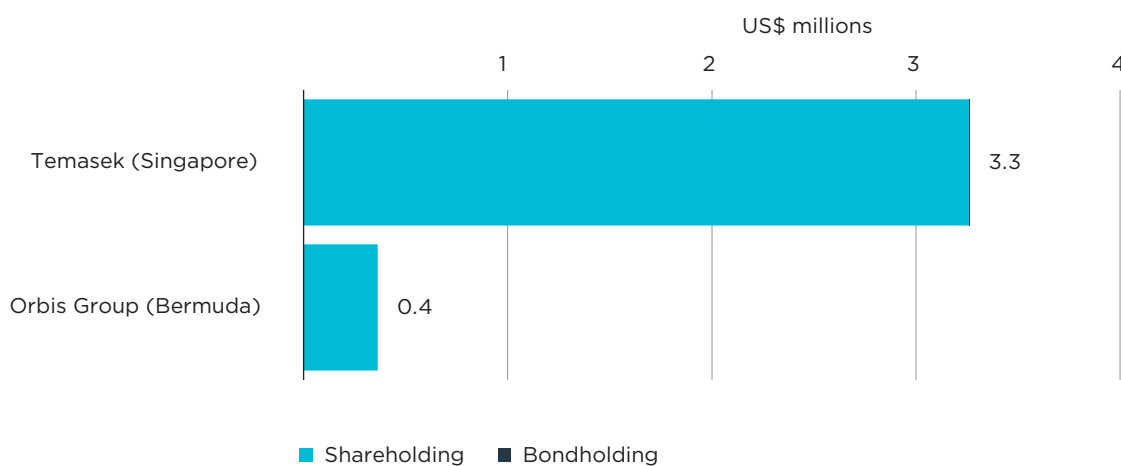
Figure 37 shows that domestic financial institutions accounted for 86% of identified agriculture-attributable investments in Singapore. They were followed by investors from Bermuda (10%) and the United States (3%).

**FIGURE 37: Singapore: Countries of origin of agricultural investors (May 2021, most recent filings)**



The top investors held all identified agriculture-attributable bonds and shares in Singapore. Figure 38 shows that the largest investor was Temasek with \$3.3 million in agriculture-attributable investments, followed by Orbis Group (\$0.4 million).

**FIGURE 38: Singapore: Top 15 agricultural investors (May 2021, most recent filings, USD millions)**

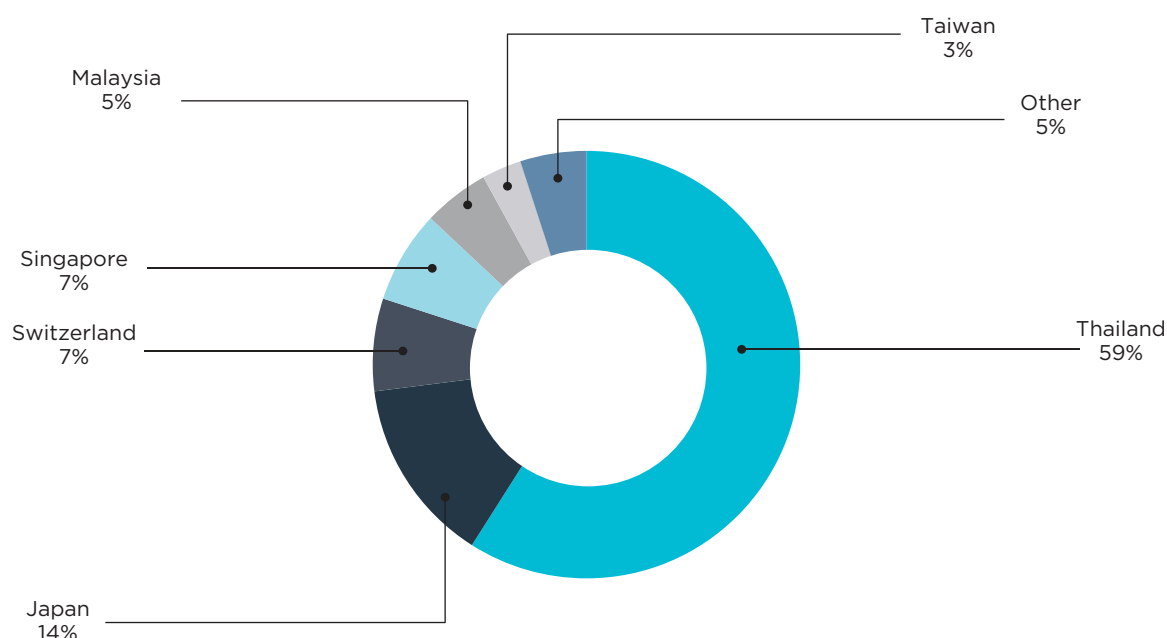


### 1.3.11 Thailand

#### • Creditors

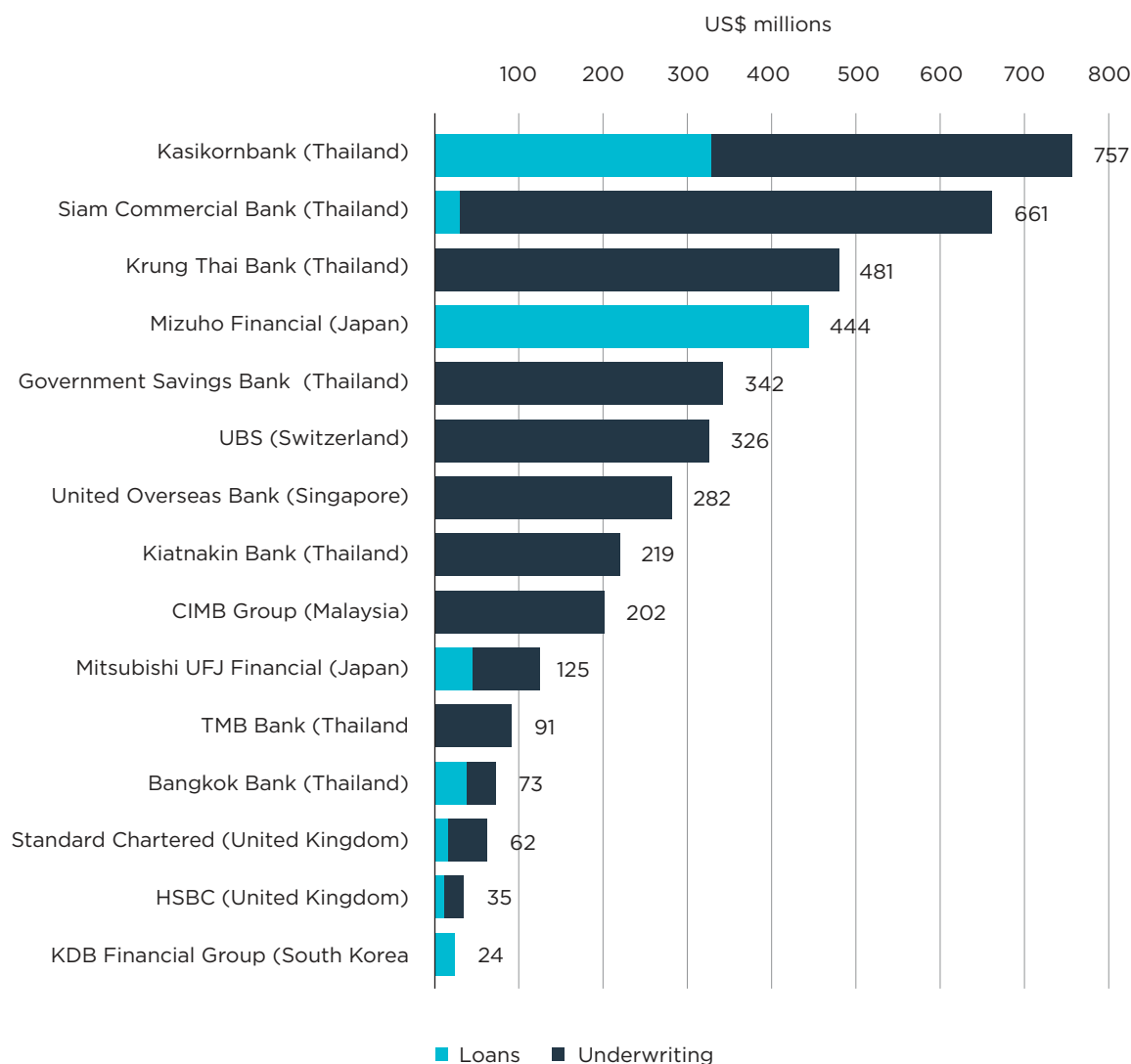
The selected companies attracted \$4.5 billion in loans and underwriting services attributable to agriculture in Thailand between 2016 and 2020. Twenty-eight per cent of this credit was provided in the form of loans and 72% in issuance underwriting services. As Figure 39 shows, 59% of this credit was provided by domestic financial institutions. Together, these financial institutions provided \$2.7 billion in loans and underwriting services, followed by financial institutions from Japan (\$647 million) and Switzerland (\$326 million).

**FIGURE 39: Thailand: Countries of origin of agricultural creditors (2016–2020)**



The top 15 creditors provided 91% of identified agriculture-attributable loans and underwriting services to the selected agriculture companies active in Thailand. Together, these financial institutions provided \$4.1 billion in credit. As Figure 40 shows, the three largest creditors were domestic financial institutions. The largest was Kasikornbank, which provided \$757 million in agriculture-attributable loans and underwriting services, followed by Siam Commercial Bank (\$661 million) and Krung Thai Bank (\$481 million).

**FIGURE 40: Thailand: Top 15 agricultural creditors (2016–2020, USD millions)**



● **Investors**

As of the most recent filings in May 2021, investors held \$1.1 billion in agriculture-attributable bonds and shares issued by companies active in Thailand.

Figure 41 shows that financial institutions from the United States accounted for more than a quarter (28%) of these investments, followed by investors from France (25%) and Thailand (22%).

**FIGURE 41: Thailand: Countries of origin of agricultural investors (May 2021, most recent filings)**

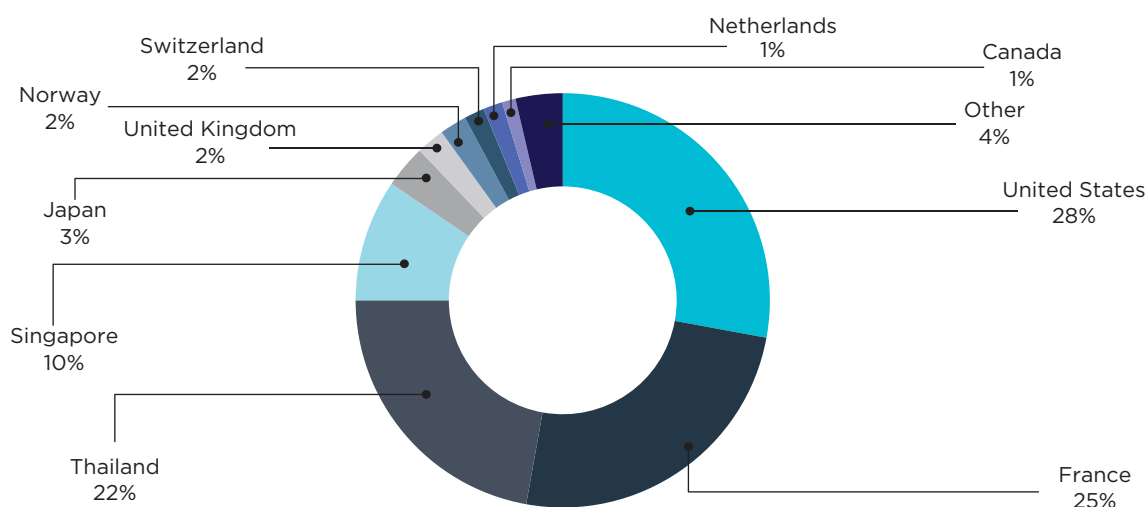
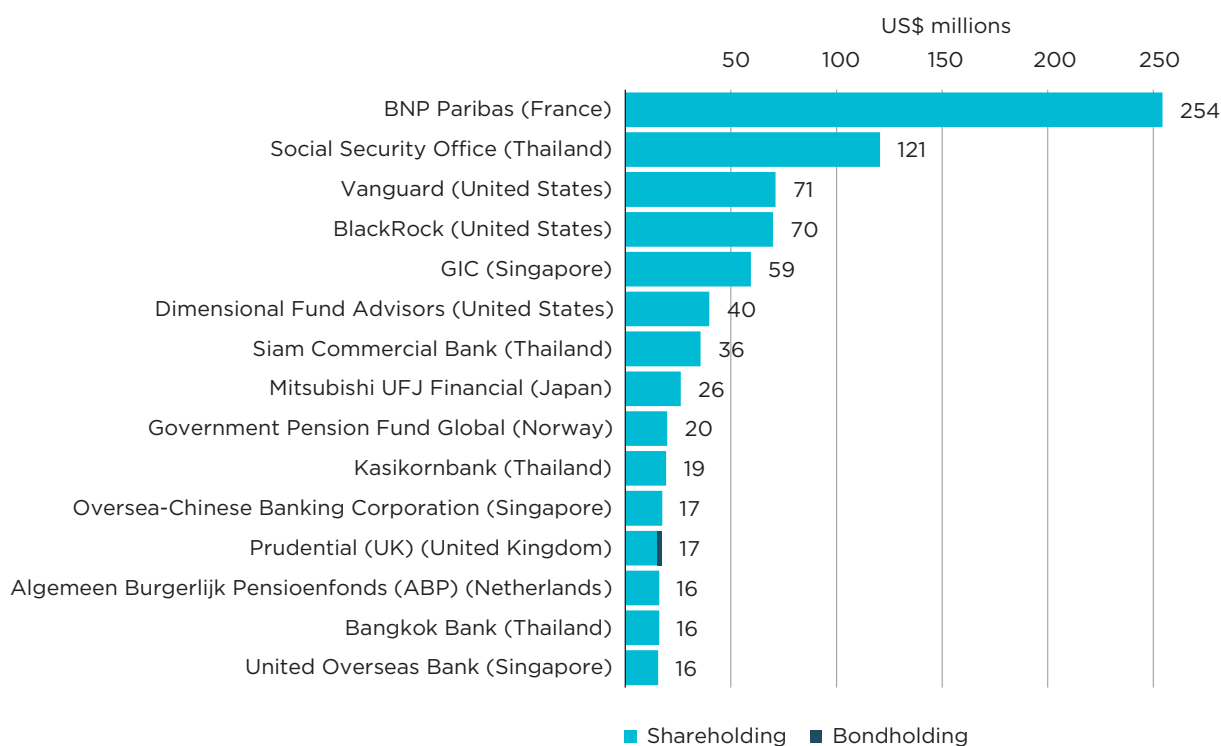


Figure 42 shows that the largest investor in the selected companies active in agriculture in Thailand was French BNP Paribas with \$254 million in agriculture-attributable investments. It was followed by the Thai Social Security Office (\$121 million) and US asset manager Vanguard (\$71 million).

**FIGURE 42: Thailand: Top 15 agricultural investors (2021 May, most recent filings, USD millions)**

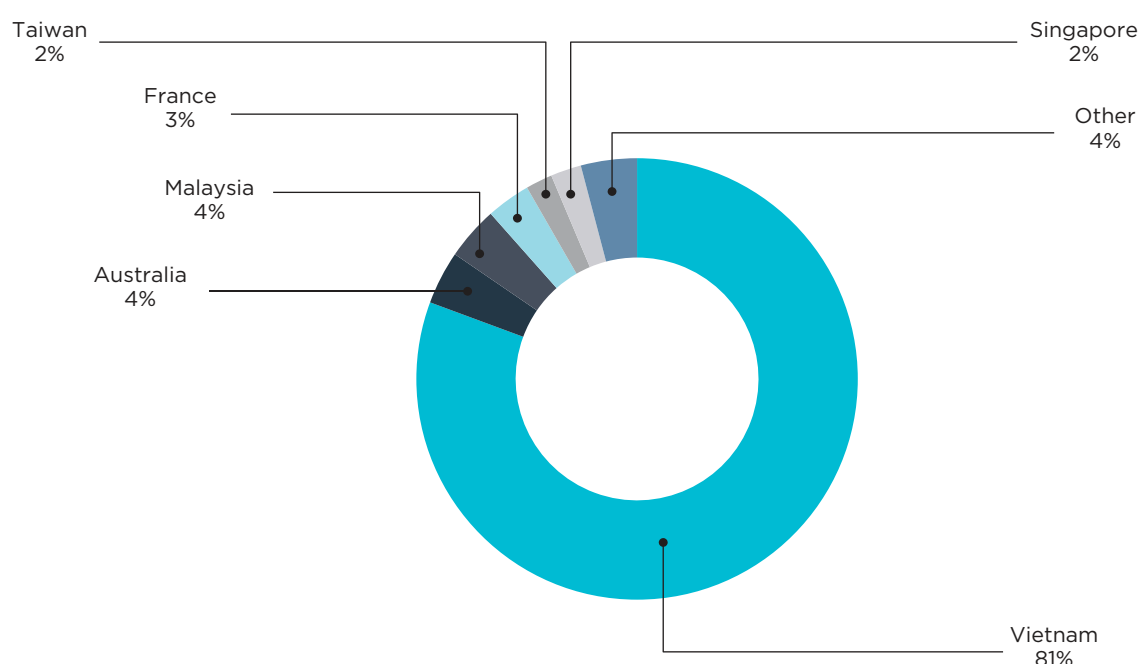


### 1.3.12 Vietnam

#### • Creditors

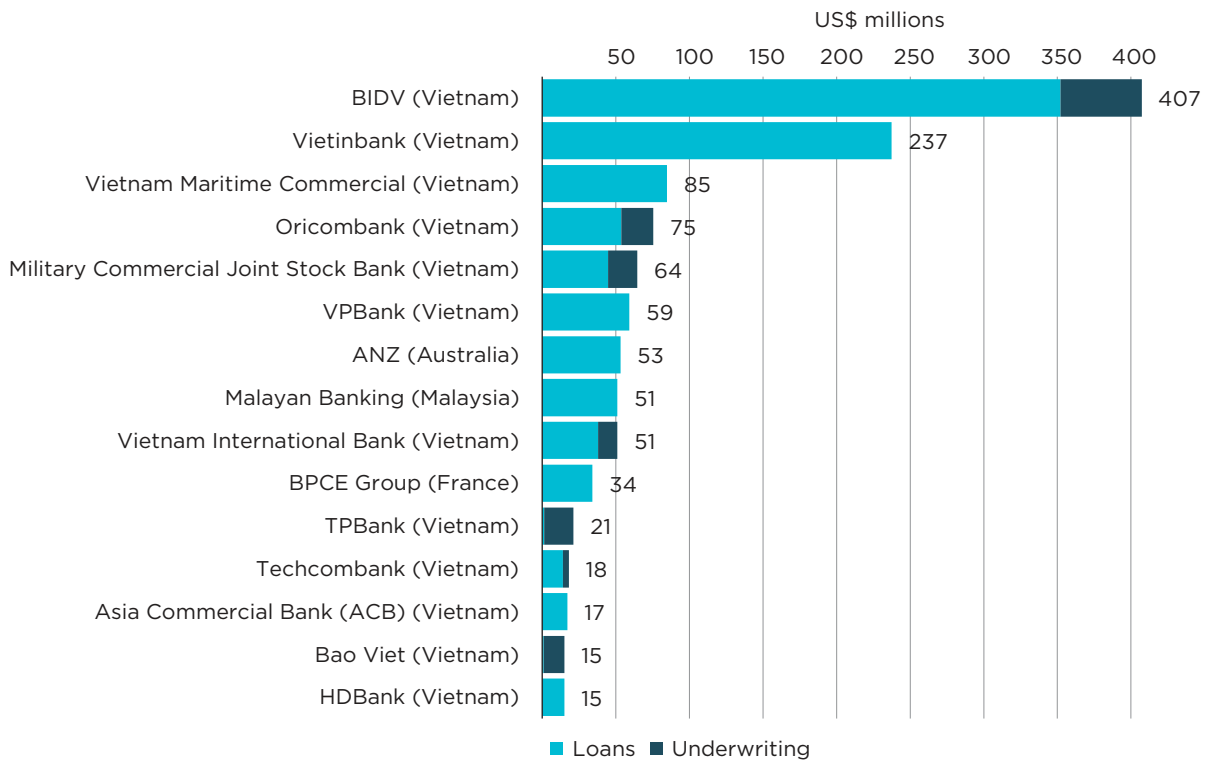
Between 2016 and 2020, the selected companies active in agriculture in Vietnam attracted \$1.3 billion in loans and underwriting services attributable to agriculture. Of this, 87% was provided in loans and 13% in issuances underwriting services. Figure 43 shows that domestic financial institutions provided approximately 81% of identified loans and underwriting services. Together, these financial institutions provided \$1.1 billion, followed by financial institutions from Australia (\$53 million) and Malaysia (\$51 million).

**FIGURE 43: Vietnam: Countries of origin of agricultural creditors (2016–2020)**



The top 15 creditors provided 89% of identified agriculture-attributable loans and underwriting services to the selected agriculture companies active in Vietnam. Together, these financial institutions provided \$1.2 billion in credit. As Figure 44 shows, the three largest creditors were all domestic financial institutions from Vietnam. The largest was Bank for Investment and Development of Vietnam (BIDV), which provided \$407 million in agriculture-attributable loans and underwriting services. It was followed by Vietnam Bank for Industry and Trade (Vietinbank) (\$237 million) and Vietnam Maritime Commercial (\$85 million).

**FIGURE 44: Vietnam: Top 15 agricultural creditors (2016–2020, USD millions)**



● **Investors**

As of the most recent filings in May 2021, investors held \$2 billion in agriculture-attributable bonds and shares issued by companies active in Vietnam. Figure 45 shows that financial institutions from the United States accounted for 40% of these investments, followed by investors from Singapore (11%) and the United Kingdom (9%).

**FIGURE 45: Vietnam: Countries of origin of agricultural investors (May 2021, most recent filings)**

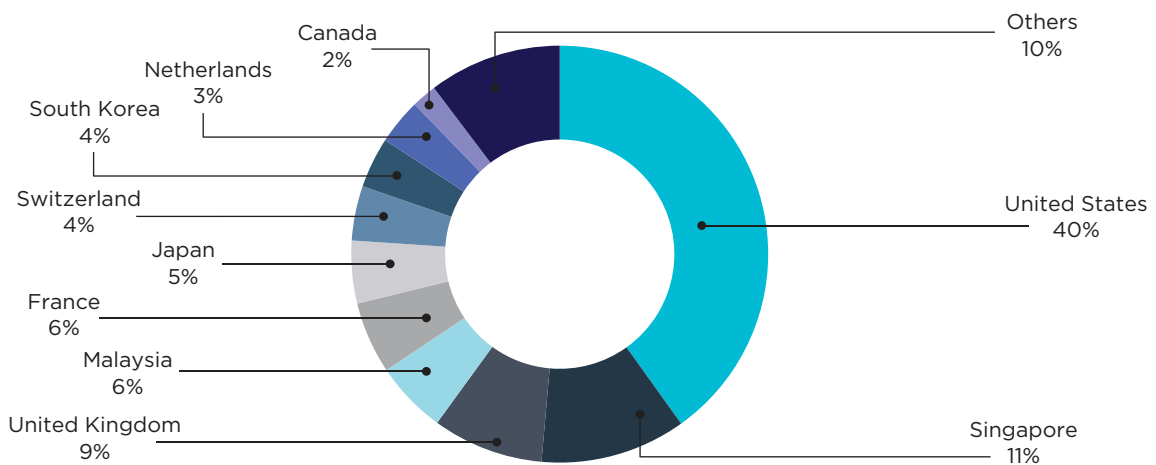
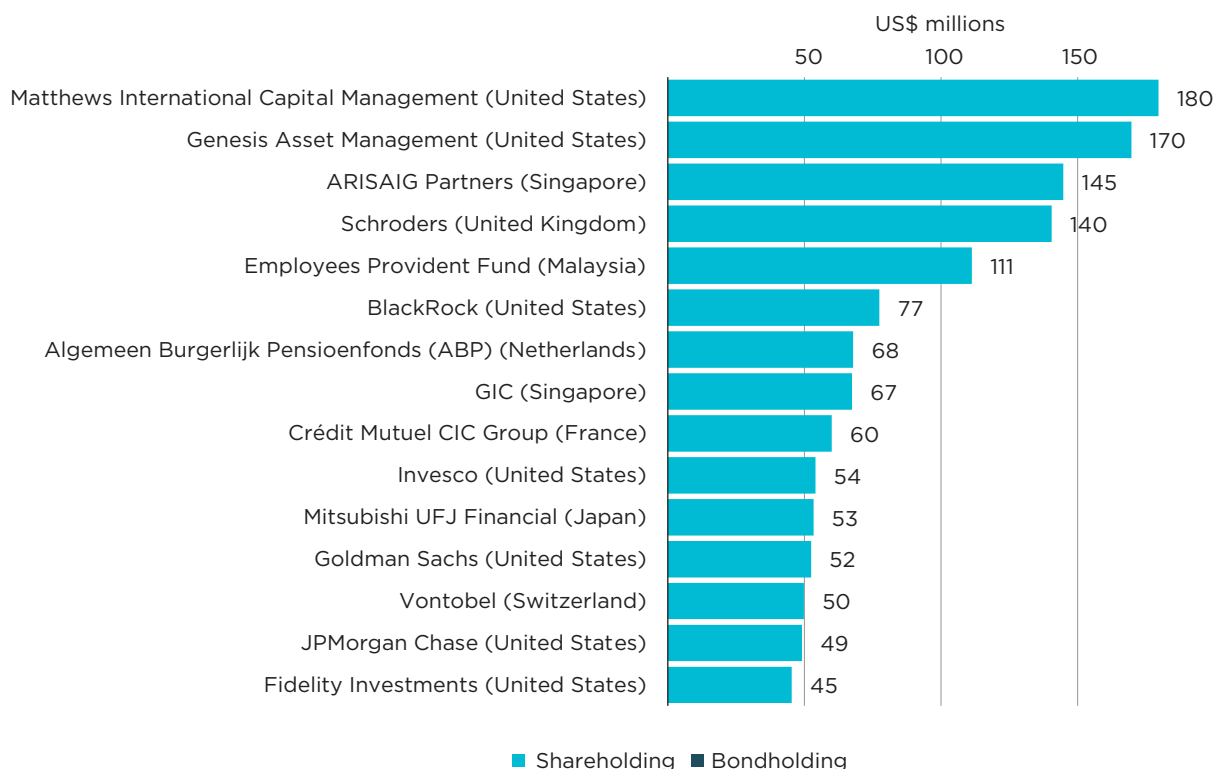


Figure 46 shows that the largest investor in the selected companies active in agriculture in Vietnam was Matthews International Capital Management with \$180 million in agriculture-attributable investments. It was followed by Genesis Asset Management of the United States (\$170 million) and ARISAIG Partners of Singapore (\$145 million).

**FIGURE 46: Vietnam: Top 15 agricultural investors (May 2021, most recent filings, USD millions)**



## CHAPTER 2

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# THE RESPONSIBILITIES OF FINANCIAL INSTITUTIONS

This chapter outlines the responsibilities of financial institutions in preventing and mitigating violations to labor rights and women's rights in the agriculture sector in Asia, and the risks associated with failing to do so. These responsibilities are based on (voluntary) international standards, as well as regional and national policies that promote and regulate responsible financing for banks and investors in FFA and ASEAN countries.

## 2.1 Risks and responsibilities: why the financial sector must act

Disregard for the rights of women and workers is a persistent structural issue in the agriculture sector in Asia, facilitated by a lack of government control, the failure of companies to respect human rights and negligence by financial institutions to ensure that the businesses they fund are operating responsibly. As detailed in chapter 1, banks play an essential role in financing the agriculture sector in FFA and ASEAN countries. In providing credit and investments, financial institutions can exercise significant influence over the practices and policies of an agribusiness. However, when banks continue to finance agribusinesses that disregard the rights of women and workers, they are complicit in these abuses.

It is not just for moral reasons that financial institutions should adopt better practices to promote responsible business conduct and discourage abusive practices in Asia's agriculture sector. A joint study by FFA and SOMO outlined the risks for financial institutions with a short-term, business-as-usual mindset, and found that disregard for environmental and social issues in the agriculture sector not only promotes abusive and unsustainable practices, but also undermines the profitability and functioning of banks themselves. If financial institutions fail to uphold and promote better ESG practices, they will face progressively more risks and costs, including:<sup>17</sup>

- **Credit risks**

Banks face loan defaults and stranded assets due to the impacts of climate change and abusive social practices that ultimately undermine the profitability of agribusinesses. Because irresponsible agribusinesses may face loss of harvests, lawsuits, fines, boycotts and other consequences from their harmful practices, these companies are at higher risk of defaulting on repayments.

- **Market risks**

Shifts in the economy and consumption patterns may lead to more loan defaults, particularly as consumers become more aware of harmful practices in food supply chains and new government regulations and initiatives against human rights abuses by companies. This may lower global demand for products associated with women's rights and labor rights abuses and, in turn, have a serious effect on the profitability of irresponsible agribusinesses.

- **Operational risks**

It is not only agribusinesses that would suffer the consequences of a failure to address social issues and climate change; the operations and profitability of banks would also be affected. This could include protests against a bank's failure to act on human rights allegations and disruptions in the bank's operations.

- **Regulatory risks**

If financial institutions fail to adopt better practices, governments will be more likely to step in and introduce or reinforce laws, codes and standards on ESG risks.

- **Negative ratings from credit rating agencies and ESG reports**

Banks that fail to strengthen their ESG framework will receive lower credit and ESG ratings, which, in turn, will increase their borrowing costs and make them less attractive to shareholders.

The responsibility of financial institutions to address the environmental and social impacts of their financing activities has been long recognized by governments, civil society, and the financial sector itself, as an imperative. Over the past two decades, mounting pressure on financial institutions has led to the introduction of various standards and regulations for responsible and sustainable financing and ESG practices. The following sections highlight the main international, regional and national standards that apply to the financial sector, with a particular focus on initiatives that address social issues, women's rights and labor rights.

## 2.2 International standards for responsible financing

This section discusses standards developed by international bodies that are relevant to the banking sector.

### 2.2.1 UN Global Compact

The United Nations Global Compact (UNGC) is a cross-sector initiative that established 10 principles for responsible business in the areas of human rights, labor rights, protection of the environment and anti-corruption. Companies that are members of the UNGC, which include financial institutions, commit to incorporating these 10 principles in strategies and policies to uphold basic responsibilities towards people and the planet.<sup>18</sup> Financial institutions should implement the principles not only in their internal operations (relationships with staff, suppliers etc.), but also in their lending and investment activities.

### 2.2.2 United Nations Guiding Principles on Business and Human Rights

In June 2011, the United Nations Human Rights Council unanimously endorsed the UN Guiding Principles on Business and Human Rights (UNGPs), which introduced a three-pronged framework for corporate human rights responsibility often known as “protect, respect, remedy”. These three pillars describe a state's responsibility to protect human rights from abuses by third parties (such as corporations), corporate responsibility to respect human rights and the right of victims to access remedy when their rights have been violated. To respect human rights, businesses are expected to conduct a human rights due diligence process “*to identify, prevent, mitigate and account for how they address their impacts on human rights*”. Business enterprises of any sector, size, ownership structure or location are covered by the UNGPs, including the financial sector.

In the context of the financial sector, this means that the responsibility of financial institutions to respect human rights encompasses not only their own operations (with their employees, suppliers and clients), but also the actual or potential impacts of their lending and investment activities. Financial institutions should seek to prevent and mitigate human rights abuses of their clients and investee companies and encourage them to provide remedy where they have caused or contributed to the abuses.

Although the UNGPs are a non-binding instrument, they are interpreted as “soft law”, since civil society, governments and investors are increasingly expecting companies and financial institutions to follow its principles by respecting human rights and conducting due diligence.

### 2.2.3 OECD Guidelines for Multinational Enterprises

Published in 2011, the OECD Guidelines for Multinational Enterprises are recommendations for responsible business conduct. The guidelines outline responsible business conduct

across areas where companies and financial institutions need to take responsibility, including human and labor rights, corruption and the environment. The OECD Due Diligence Guidance for Responsible Business Conduct provides detailed guidance on how companies should conduct due diligence in six stages:

1. Embed responsible business conduct in policies and management systems;
2. Identify and assess actual and potential adverse impacts associated with operations, products or services;
3. Cease, prevent and mitigate adverse impacts;
4. Track implementation and results;
5. Communicate how impacts are addressed; and
6. Provide for, or cooperate with, remediation when appropriate.

The OECD Guidelines and the responsibility to conduct due diligence are applicable to multinational enterprises operating in or from OECD countries, but they are also open to interested non-OECD members. Governments that adhere to the OECD Guidelines are required to establish a National Contact Point (NCP) to which communities or workers harmed by corporate activity can issue complaints. The NCP then investigates whether the company or financial institution breached the OECD Guidelines and resolves the conflict, which may include financial compensation, stopping the harmful practices or other remedies.<sup>19</sup>

To assist specific sectors with the implementation of the guidelines, the OECD has developed several sector guidance documents, including for the agriculture and financial sectors:

- ***Responsible Business Conduct for Institutional Investors***

The Responsible Business Conduct for Institutional Investors guidance document provides specific guidance on due diligence for institutional investors, such as investment banks, hedge funds, insurance companies and pension funds. This guidance was introduced to interpret the due diligence stages specifically for investors, since the language in the OECD Guidelines focuses on suppliers and buyers in supply chains rather than financial value chains. It reinterprets due diligence as a process of identifying (potential) adverse impacts among investee companies, and using financial leverage to influence those companies and prevent or mitigate their harmful impacts.<sup>20</sup>

- ***Due Diligence for Responsible Corporate Lending and Securities Underwriting***

Financial institutions that provide corporate lending and securities underwriting also have a responsibility to conduct due diligence and use financial leverage to promote responsible business conduct among their corporate clients. This guidance document for responsible corporate lending and securities underwriting outlines key considerations for banks implementing the OECD Guidelines to account for adverse impacts caused by the activities of their clients.<sup>21</sup>

- ***OECD-FAO Guidance for Responsible Agricultural Supply Chains***

The OECD-FAO Guidance for Responsible Agricultural Supply Chains (the Guidance) has been developed to help enterprises observe existing standards for responsible business conduct in agricultural supply chains. These standards include the OECD Guidelines for Multinational Enterprises, the Principles for Responsible Investment in Agriculture and Food Systems and the Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forests in the Context of National Food Security. Observing these standards

helps enterprises mitigate their adverse impacts and contribute to sustainable development. Based on these standards, the OECD-FAO Guidance outlines key policies that enterprises should incorporate in their existing policies on corporate social responsibility, sustainability and risk management by recognizing the specific human rights, labor rights, environmental and other ESG risks in agricultural supply chains.<sup>22</sup>

#### 2.2.4 IFC Performance Standards

The International Finance Corporation (IFC), the private arm of the World Bank Group, has a mandate to promote economic development and poverty reduction through investment, and introduced the IFC Performance Standards to define the responsibilities of their clients in managing environmental and social risks. The IFC Performance Standards provide an international benchmark and framework for identifying and managing environmental and social risks in relation to risk management, labor and working conditions, pollution prevention, resource efficiency, community well-being, land acquisition and involuntary resettlement, biodiversity conservation and sustainable natural resource management, Indigenous peoples and cultural heritage.<sup>23</sup> They are formulated as requirements for the clients of financial institutions. The IFC Performance Standards were last updated in 2012. Commercial banks can require their clients to comply with the IFC Performance Standards (see section 2.2.5 Equator Principles).

#### 2.2.5 Equator Principles

The Equator Principles, launched in 2003, are based on standards established by the IFC and apply primarily to project finance. The Equator Principles provide a risk management framework to determine, assess and manage environmental and social risks in projects. This framework functions as a minimum standard for due diligence and monitoring. Japanese bank Mizuho Financial serves as the regional representative for Asia-Oceania on the Equator Principles Association Steering Committee (since November 2019).<sup>24</sup> The Equator Principles have been updated three times, with EP 4 released in November 2019.

#### 2.2.6 Principles for Responsible Investment

The Principles for Responsible Investment (PRI) were developed in 2006 by and for institutional investors. There are six key principles, and signatories commit to integrate environmental, social and corporate governance issues in their investment decisions.<sup>25</sup> Last year, the PRI announced it was setting a multiyear agenda to work towards respect for human rights being implemented in the financial system.<sup>26</sup>

#### 2.2.7 Sustainable Banking Network

The Sustainable Banking Network (SBN) is a voluntary community of financial sector regulatory agencies and banking associations from emerging markets committed to promoting sustainable finance in line with international good practice. This initiative is supported by the IFC and includes 39 member countries that represent 85% of total banking assets in emerging markets.<sup>27</sup>

#### 2.2.8 Network for Greening the Financial System

To share best practices and contribute to environmental and climate risk management in the financial sector, central banks and regulators launched the Network of Central Banks and Supervisors for Greening the Financial System<sup>28</sup> in December 2017. Its purpose is to “*help [strengthen] the global response required to meet the goals of the Paris agreement*”

and to enhance the role of the financial system to manage risks and to mobilize capital for green and low-carbon investments in the broader context of environmentally sustainable development.”<sup>29</sup>

### 2.2.9 Convention on the Elimination of all forms of Discrimination against Women (CEDAW)

The *Convention on the Elimination of all forms of Discrimination against Women (CEDAW)* is the main international treaty for women’s rights. Adopted by the United Nations in 1979, it defines what constitutes discrimination against women and sets an agenda for national action to end such discrimination.<sup>30</sup>

CEDAW provides the basis for international legal regulations to promote, protect and fulfil women’s human rights and prevent violations by private individuals and actors:

- According to the Committee on the Elimination of all forms of Discrimination against Women (CEDAW) state parties must “protect women from discrimination by private actors”.<sup>31</sup> In that sense, state parties must “react actively against discrimination against women, regardless of whether such acts or omissions are perpetrated by the State or by private actors.”<sup>32</sup>
- In addition, state parties must “formulate and implement a policy that is targeted as clearly as possible towards the goal of fully eliminating all forms of discrimination against women and achieving women’s substantive equality with men.”<sup>33</sup> The policy “must be comprehensive” and “apply to both public and private economic spheres”.<sup>34</sup> Moreover, this “policy must engage the private sector, including business enterprises, the media, organizations, community groups and individuals, and enlist their involvement in adopting measures that will fulfil the goals of the Convention in the private economic sphere”.<sup>35</sup>
- Finally, “the full implementation of the Convention requires States to take positive measures to eliminate all forms of violence against women”.<sup>36</sup>

Although the state party is ultimately responsible for carrying out the obligations under CEDAW, non-state actors, including business entities, play a critical role in ensuring that women enjoy their rights to non-discrimination and substantive equality. For example, in the concluding observations, CEDAW has made recommendations directly to the media and health care providers.<sup>37</sup>

### 2.2.10 Women’s Empowerment Principles

The Women’s Empowerment Principles (WEP) are a joint undertaking of the Global Compact and UN Women. These seven principles provide a tool for business to assess and benchmark their own business policies and practices against gender equality international standards. The principles are the following:<sup>38</sup>

1. Establish high-level corporate leadership for gender equality;
2. Treat all women and men fairly at work – respect and support human rights and non-discrimination;
3. Ensure the health, safety and well-being of all women and men workers;
4. Promote education, training and professional development for women;
5. Implement enterprise development, supply chain and marketing practices that empower women;

6. Promote equality through community initiatives and advocacy; and
7. Measure and publicly report on progress to achieve gender equality.

To implement these principles and measure progress, the WEP recommends:<sup>39</sup>

- Clearly defining the company's strategic case for advancing gender equality within the organization and in its field; and
- Prominently publicizing an explicit company statement that prohibits gender-based discrimination in hiring, retention policies, promotion, salaries and benefits.

### 2.2.11 Agribusiness sector initiatives

In response to the global call for fair food value chains, companies and industry associations from various agricultural subsectors have introduced their own initiatives, certification schemes and standards to promote better environmental practices, human rights and labor rights. To ensure minimum standards on responsible business conduct, financial institutions can use their leverage to require clients to join or become certified by these initiatives. Some of the key standards and initiatives relevant to this study are summarized in Table 4.

**TABLE 4: Sector standards on responsible agricultural production**

Initiative	Commodities	Issues covered	Certification scheme
Bonsucro <sup>40</sup>	Sugar cane	Legal compliance, human rights, workers' rights, efficiency, biodiversity	Bonsucro
Marine Stewardship Council <sup>41</sup>	Fish	Sustainability, biodiversity, aquatic ecosystems, traceability	Blue MSC Label: MSC Fisheries Standard, MSC Chain of Custody Standard
Rainforest Alliance <sup>42</sup>	Bananas, cocoa, coffee, flowers, fruit, herbs and spices, non-timber forest products, nuts, palm oil, tea	Environmental protection, deforestation, human rights, living wage/ income, gender equality	2020 Sustainable Agriculture Standard
Round Table on Responsible Soy (RTRS) <sup>43</sup>	Soy	Legal compliance, workers' rights, community well-being, environmental protection, efficiency	RTRS Certification for Responsible Soy Production
Roundtable on Sustainable Palm Oil (RSPO) <sup>44</sup>	Palm oil	Transparency, human rights, smallholder farmers, workers' rights, environmental protection	Certified Sustainable Palm Oil (CSPO)

## 2.3 ASEAN policies

This section discusses regional ESG standards covering ASEAN countries.

### 2.3.1 ASEAN Guidelines for Promoting Responsible Investment in Food, Agriculture and Forestry

The ASEAN RAI Guidelines, published in 2018, were introduced in anticipation of increased foreign direct investment (FDI) in the agriculture sector in ASEAN Member States. FDI is expected to continue to increase as a result of rising demand for food in the growing ASEAN population, which is estimated to reach 800 million in the 2050s, as well as higher incomes and urbanization in the 10 ASEAN Member States.<sup>45</sup> The main objective of the ASEAN RAI is to promote responsible investments in food, agriculture and forestry in ASEAN Member States and ensure that these investments contribute to regional economic development, food and nutrition security, food safety, equitable benefits and sustainable use of natural resources.<sup>46</sup> The guidelines are intended for policymakers, the private sector, civil society and other stakeholders working on responsible investment in food, agriculture and forestry.

The ASEAN RAI were developed to:

- Contribute to food security, food safety and better nutrition;
- Contribute to equitable, sustainable and inclusive economic development and the eradication of poverty;
- Foster equality, engagement and empowerment for women, young people, Indigenous peoples and other marginalized groups;
- Respect tenure of lands, fisheries and forests and access to water;
- Conserve and sustainably manage natural resources, particularly forests;
- Support the generation and diffusion of sustainable and appropriate technologies and practices for resource-efficient, productive and safe food, agriculture and forestry systems;
- Increase resilience and contribute to the mitigation of, and adaptation to, climate change, natural disasters and other shocks;
- Respect the rule of law and incorporate inclusive and transparent governance structures, processes and grievance mechanisms;
- Assess and address impacts and promote accountability; and
- Strengthen regional approaches to responsible investment in food, agriculture and forestry.

### 2.3.2 Guidelines for the Promotion of Inclusive Business in ASEAN

The ASEAN published the Guidelines for the Promotion of Inclusive Business in ASEAN in September 2020,<sup>47</sup> which are aimed at supporting inclusive business in ASEAN Member States. The guidelines detail the institutional requirements for inclusive business and provide a set of policy instruments that includes:<sup>48</sup>

- Strategies and action plans on inclusive business enabling environment (IBee);
- Institutionalizing the promotion of inclusive business;
- Accreditation and registration of inclusive businesses;
- Raising awareness of inclusive business;
- Inclusive business coaching for companies;
- Inclusive business investment incentives;

- Reducing the impact of investment risks;
- Promoting inclusive business in public procurement;
- Targeting inclusive business in existing private sector and development programs;
- Linking inclusive business in existing private sector and development programs;
- Linking inclusive business to the social enterprise and corporate social responsibility agenda; and
- Monitoring and reporting on inclusive business results.<sup>49</sup>

### 2.3.3 ASEAN Green Bond Standards

The ASEAN Capital Market Forum (ACMF) launched the Green Bond Standards (ASEAN GBS) in November 2017 to complement the International Capital Market Association (ICMA) Green Bond Principles (GBP) developed in January 2014. While the GBP provides broader principles for green bonds, the GBS aims to provide detailed guidelines on how to apply the GBP across ASEAN countries. It is a voluntary guideline to *“enhance transparency, consistency and uniformity of ASEAN Green Bonds which will also contribute to the development of a new asset class, reduce due diligence cost and help investors to make informed investment decisions”*. Issuers that wish to issue and label green bonds as ASEAN Green Bonds need to demonstrate compliance with the standards.<sup>50</sup>

### 2.3.4 ASEAN Social Bond Standards

ASEAN Social Bond Standards (ASEAN SBS) is a guidance document developed by the ASEAN Capital Market Forum in 2018 and complements the ICMA Social Bond Principle (SBP) launched in June 2017. It provides detailed guidelines on how to apply the SBP across ASEAN Member States. The SBS aims to provide clear guidelines for social bond issuers, as well as certainty to investors that social bonds labelled as ASEAN Social Bonds have satisfied uniform standards.<sup>51</sup>

### 2.3.5 ASEAN Sustainable Bond Standards

ASEAN Sustainability Bond Standards (ASEAN SUS) were developed based on the ICMA Sustainability Bond Guidelines, complementing the ASEAN Green Bonds Standards and Social Bond Standards. The issuers must comply with both the ASEAN GBS and SBS in four areas (e.g. use of proceeds, process of project evaluation and selection, management of proceeds and reporting). The proceeds from ASEAN Sustainability Bonds must be used exclusively to finance or refinance a combination of green and social projects that offer environmental and social benefits. The proceeds must not be used to finance projects specified as ineligible by the ASEAN GBS and SBS, such as fossil fuel power plant projects, alcohol, gambling and tobacco.<sup>52</sup>

## 2.4 Trade treaties

The ASEAN countries participating in trade treaties have a commitment to liberalize trade and investment in the agriculture sector and facilitate cross-border investment in agriculture. Most trade treaties only urge member countries to reform their investment policies to comply with the agreements. Rarely, they urge countries to create policies that protect women’s rights and labor rights. The absence of social rights protections in these treaties may lead to a higher risk of violating these rights. In contrast, trade agreements with the EU, such as EU-Singapore, EU-Japan and EU-Vietnam, all contain sections on human rights (albeit weak).

### 2.4.1 ASEAN Free Trade Area

The ASEAN Free Trade Area (AFTA) is a trade agreement signed on 28 January 1992 in Singapore. All ASEAN countries are members of this trade agreement, namely, Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam. The agreement has two functions: increasing the competitiveness of the ASEAN region through the elimination of tariffs and non-tariff barriers within ASEAN countries, and increasing FDI to ASEAN, which makes cross-border investment easier within ASEAN countries, including investment in the agriculture sector.

### 2.4.2 Regional Comprehensive Economic Partnership

The Regional Comprehensive Economic Partnership (RCEP) was signed on 15 November 2020 following a 10-year negotiating process. All ASEAN Member States are members of this agreement, as well as Australia, China, Japan, New Zealand and South Korea.<sup>53</sup> The 15 Member States represent a third of the global population and 30% of global GDP.<sup>54</sup> This trade agreement aims to eliminate tariff and non-tariff trade barriers, allow freer movement of goods within Member States and boost investment. The agreement does not include environmental protection clauses or protection of social rights. Hence, the objective to increase cross-border investment within Member States risks violating both labor rights and women's rights. Lower tariffs also make it easier to import cheap agricultural goods, which has serious economic consequences for small-scale farmers who are unable to compete.<sup>55</sup>

### 2.4.3 ASEAN Comprehensive Investment Agreement

The ASEAN Comprehensive Investment Agreement (ACIA) is an investment treaty signed on 26 February 2009 and put into force on 24 February 2012. This treaty aims to “*create a free and open investment regime in ASEAN in order to achieve the end goal of economic integration under the ASEAN Economic Community (AEC) in accordance with the AEC Blueprint*” through:

- Progressive liberalization of the investment regimes of ASEAN Member States;
- Enhanced protection for investors of all member states and their investments;
- More transparent and predictable investment rules;
- Regulations and procedures conducive to increased investment in Member States;
- Joint promotion of the region as an integrated investment area; and
- Cooperation to create favorable conditions for investment by investors of a Member State in the territory of the other Member States.<sup>56</sup>

### 2.4.4 Asia-Pacific Economic Cooperation

The Asia-Pacific Economic Cooperation (APEC) is a regional forum established in 1989 to promote trade, investment, economic growth and regional cooperation. APEC accounts for nearly half of global GDP and trade and more than 60% of global energy consumption.<sup>57</sup> APEC focuses on agriculture and food security issues since this sector is the backbone of its member economies. APEC also focuses on increasing investment in agriculture, for example, by encouraging the establishment of policy and regulatory environments that facilitate investment in rural infrastructure, food supply chain logistics and agriculture. It also encourages investment in infrastructure in the green food supply chain.<sup>58</sup>

## 2.5 National policies for responsible financing

In addition to international and ASEAN initiatives, governments, banking associations and stock exchanges across ASEAN and FFA countries have introduced initiatives to promote responsible finance, ESG management and disclosure and responsible stewardship from investors. In most cases, these initiatives are voluntary mechanisms, such as guidance documents, voluntary standards and handbooks to support the ESG efforts of financial institutions. Binding regulation is limited to ESG or corporate social responsibility (CSR) disclosure by large companies, such as in India and Vietnam, and to disclosure requirements by stock exchanges, such as in Pakistan and Singapore.

### 2.5.1 Brunei

Brunei has not introduced comprehensive national policies or frameworks on ESG or responsible business conduct,<sup>59</sup> and has not developed a National Action Plan (NAP) on Business and Human Rights.<sup>60</sup>

### 2.5.2 Cambodia

Cambodia was one of the first low-income countries in the region to develop a policy strategy on sustainable development through the National Green Growth Roadmap in 2010.<sup>61</sup> Since then, the government has worked to integrate the SDGs and the Paris Agreement commitments in national policies. However, commitments on sustainable finance and responsible business conduct have been limited to voluntary initiatives driven by civil society and the private sector.

Most importantly, in 2019, the Association of Banks in Cambodia (ABC) published the Cambodian Sustainable Finance Principles (CSFP), which showed a commitment by Cambodian banks *“to prioritize the environment, protect our people and preserve our cultural heritage by actively assessing, managing, mitigating, offsetting or avoiding potential risks or negative impacts arising from our clients’ business activities, standards or practices”*.<sup>62</sup> Based on this principle, Cambodian banks committed to identify and assess business activities that have potential negative impacts on the environment, especially related to climate change, pollution (including soil, water and air), waste management and protection of Cambodia’s critical natural resources (water, natural forests and habitat and biodiversity).<sup>63</sup>

No binding regulation on ESG risk management or disclosure has been introduced in Cambodia, and a NAP on Business and Human Rights has not been developed.<sup>64</sup>

### 2.5.3 India

In 2011, the Ministry of Corporate Affairs released India’s National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business, a national framework of nine principles for responsible business conduct. The guidelines were updated in 2018 as the new National Guidelines on Responsible Business Conduct (NGRBC) to align more closely with the SDGs and the “Respect” pillar of the UNGPs. The framework lays out expectations for ethical and transparent governance, sustainability and the environment, the well-being of workers, inclusion and respect for human rights. The framework also expects large companies to file responsible business reports, but this disclosure is not mandatory. Based on the NGRBC, the SEBI Business Responsibility and Sustainability Reporting (BRSR) introduced a standard reporting format for sustainable finance in 2020, and from financial

year 2022–2023 this disclosure will be mandatory for the top 1,000 listed companies in India by market capitalization.<sup>65</sup>

In 2018, the Bombay Stock Exchange issued the Guidance Document on ESG Disclosures, which introduced a set of ESG reporting recommendations for publicly listed companies. In addition, the Indian Banking Association (IBA) published voluntary guidelines for responsible finance in 2016 that set out eight principles on governance, ESG risk management, transparency and disclosure, particularly in relation to financing that has an impact on climate change, water, poverty, energy, social inclusion and innovation.<sup>66</sup>

The Indian Government also published the first draft of its NAP on Business and Human Rights in 2019, with the final draft currently in development.<sup>67</sup>

#### 2.5.4 Indonesia

The Government of Indonesia first established that companies have a social and environmental responsibility in 2012 and, through several laws and regulations, has created an expectation that companies practice CSR and disclose their social and environmental impacts in their annual report. These initiatives have been supported with a national Corporate Governance Manual.<sup>68</sup>

In 2017, the Financial Service Authority established the Regulations on the Application of Sustainable Finance, which requires financial institutions to submit annual sustainability plans and reports.<sup>69</sup> This initiative is perceived as an important and pioneering measure among ASEAN countries, although it does not impose any major sanctions for non-compliance.<sup>70</sup> The Sustainable Finance Roadmap Phase II (2021–2025) also emphasizes the role of the financial sector, with a strong focus on improving policies, products, market infrastructure, coordination, non-governmental support, human resources and awareness of sustainability.<sup>71</sup>

One of Indonesia's policy priorities for social and environmental sustainability is the palm oil industry, as it is one of the country's most important economic sectors. In 2011, the Indonesian Government introduced the Indonesian Sustainable Palm Oil (ISPO) Standards, which include mandatory sustainability standards and certification schemes for palm oil companies in seven areas: <sup>72</sup>

- Compliance with legal business permits;
- Implementation of plantation management based on good agricultural practices (GAP);
- Protecting primary forest and peat land;
- Conducting and monitoring environmental management (e.g. protecting biodiversity, waste management and fire prevention and mitigation);
- Showing responsibility towards employees;
- Contributing to the social and economic empowerment of society; and
- Commitment to continuous improvements in sustainable palm oil production.

Indonesia is also in the process of developing a NAP on Business and Human Rights.<sup>73</sup>

#### 2.5.5 Japan

Although Japan has extensive initiatives at the national level to promote ESG risk management and disclosure, the country has not introduced binding measures. Instead, Japan has focused

on voluntary standards and guidance, such as the 2000 Environmental Reporting Guidance (updated in 2018), Japan's Stewardship Code of 2014 by the Financial Services Agency of Japan (updated in 2020), the 2015 Corporate Governance Code (updated in 2018), the 2016 Guidance for Integrated Corporate Disclosure and the 2018 Japan TCFD Guidance 2.0 (updated in 2020).<sup>74</sup>

The 2015 Japan Corporate Governance Code establishes fundamental principles for corporate governance at listed companies in Japan to achieve sustainable corporate growth by adopting appropriate measures to address sustainability issues, including social and environmental matters. The 2018 revision of the Code added disclosure expectations for ESG issues, and the Code was set to be revised again in 2021.<sup>75</sup> Japan's 2018 Environmental Reporting Guidelines provide a framework for international regulations, practical trends and integrated environmental reporting. It requires reporting of both conventional environmental management information and forward-looking, non-financial data in relation to governance, risk management and business management.<sup>76</sup>

In addition to these guidance documents and codes introduced by the government, the Japan Exchange Group and Tokyo Stock Exchange have developed a handbook on ESG disclosure to provide a reference document for investors and listed companies to improve ESG activities and reporting.<sup>77</sup>

In the area of human rights, a NAP on Business and Human Rights was published in 2020,<sup>78</sup> and in August 2021, the government announced it would conduct a large-scale investigation of about 2,600 listed companies to understand the human rights issues in their supply chains and the support they need from the government. Based on the findings, the government will discuss whether legislation on mandatory human rights due diligence is necessary.<sup>79</sup>

### 2.5.6 Laos

There is no comprehensive national strategy or policy on ESG or responsible business conduct in Laos, other than participation in international initiatives, ASEAN and broad agreements with development partners.<sup>80</sup> A NAP on Business and Human Rights has not been developed.<sup>81</sup>

### 2.5.7 Malaysia

Since 2016, Bursa Malaysia has mandated publicly listed companies to publish an annual sustainability report. The Second Edition of the Sustainability Reporting Guide was issued in 2018 to help publicly listed companies comply with this mandate.<sup>82</sup> In addition, the government, through Securities Commission Malaysia, has developed guidance documents, such as the 2014 Malaysian Code for Institutional Investors, the 2012 Malaysian Code on Corporate Governance (updated in 2017),<sup>83</sup> the 2017 Guideline on Sustainable and Responsible Investment (SRI) Funds<sup>84</sup> and the 2019 Sustainable and Responsible Investment Roadmap for the Malaysian Capital Market (SRI Roadmap).<sup>85</sup>

In 2021, Malaysia's central bank, Bank Negara Malaysia (BNM), issued the Climate Change and Principle-based Taxonomy (CCPT) to introduce guiding principles for climate change objectives. It also aims to *"to provide a standardized classification and reporting of climate-related exposures, to support risk assessments and monitoring of*

*their financing and investments.*<sup>86</sup> The CCPT introduces five principles for assessing economic activities:<sup>87</sup>

- Climate change mitigation;
- Climate change adaptation;
- No significant harm to the environment;
- Remedial measures to transition; and
- Prohibited activities.

In addition, the Malaysian Government introduced the Malaysian Sustainable Palm Oil (MSPO) Certification Scheme in 2015 to demonstrate its strong commitment to sustainable palm oil production.<sup>88</sup> The aim of the certification scheme is to reduce the environmental and social impact of the palm oil industry and assist smallholder farmers to become certified producers for export.<sup>89</sup> The Malaysian Government made certification mandatory for palm oil plantations, independent and organized smallholdings and palm oil processing facilities.<sup>90</sup>

The government is also in the process of developing a NAP on Business and Human Rights.<sup>91</sup>

### 2.5.8 Myanmar

No national initiatives on ESG risk management and disclosure could be identified. In 2015, the Economic Adviser to the Government of Myanmar announced the government's intention to develop a NAP on Business and Human Rights. This is still in development.<sup>92</sup>

### 2.5.9 Pakistan

Pakistan's 2013 Corporate Social Responsibility Voluntary Guidelines encourage the boards of directors of registered entities to take ownership of the formulation, adoption and implementation of their company's CSR policy. The Guidelines recommend that a company's CSR policy be fully endorsed by its board of directors and that the policy is embedded in the company vision and strategy.<sup>93</sup> In line with these guidelines, the Pakistan Principles for Corporate Governance for Non-Listed Companies introduced 13 principles of good governance.<sup>94</sup> The State Bank of Pakistan introduced the Green Banking Guidelines in 2017 to promote environmental risk management and encourage climate finance to reduce vulnerabilities to climate change.<sup>95</sup>

However, other than these guidelines, there are no binding measures on ESG risk management or disclosure. The Pakistan Stock Exchange introduced listing regulations in 2014, which require boards of directors of listed companies to ensure that significant policies are adopted on governance, CSR initiatives, safety and the environment.<sup>96</sup>

In September 2021, the Government of Pakistan published the inaugural NAP on Business and Human Rights.<sup>97</sup>

### 2.5.10 Philippines

In 2009, the Philippines introduced legislation requiring companies to take responsibility for their social and environmental impacts. It was updated in 2011 to also require large tax-paying companies to report on CSR activities in their annual reports. In addition, the Philippine Stock Exchange has introduced several guidelines, including the 2010 Corporate Governance Guidelines for Listed Companies and the 2019 Sustainability Reporting Guidelines for Publicly Listed Companies based on international standards and best practices.<sup>98</sup>

Since 2019, the Philippine Securities and Exchange Commission (SEC) has mandated publicly listed companies to submit a sustainability report to improve measurement, monitoring, management and dialogue with stakeholders on sustainability issues and to align efforts with established (global) targets. This mandate includes a focus on economic, environmental and social topics for disclosure, as well as guidance on conducting materiality assessments. The framework is based on international standards such as the Recommendations of the Task Force on Climate-Related Financial Disclosures.<sup>99</sup>

In 2020, Bangko Sentral ng Pilipinas (BSP), the central bank of the Philippines, released the Sustainable Finance Framework, a guidance document for financial institutions to embed environmental, social and governance principles in their organization. The Framework explains how to set up a risk management framework and governance system and includes specific disclosure requirements for annual reporting. Banks are given three years to fully comply and must establish a corporate governance and risk management framework consistent with their size, risk profile and complexity.<sup>100</sup>

In addition, the government launched the Philippine Sustainable Finance Roadmap in October 2021 to address policy and regulatory gaps in promoting sustainable investment. The document indicates that the roadmap should be seen as a first phase, focused on the transition to a low-carbon economy, and that other sustainable development challenges will be considered in future roadmaps.<sup>101</sup> Among other efforts, the roadmap outlines initiatives to increase the supply of sustainable finance, including tax and other fiscal incentives for issuers of sustainable bonds.<sup>102</sup>

A NAP on Business and Human Rights has not been developed.<sup>103</sup>

### 2.5.11 Singapore

In recent years, national efforts to improve sustainable and responsible financing have accelerated. The government's 2019 Green Finance Action Plan recognizes the major role of financial institutions in Singapore and the need to improve climate resilience and green finance solutions. However, no binding regulations have been introduced.<sup>104</sup>

The Monetary Authority of Singapore (MAS) has developed several voluntary ESG guidelines, most importantly, the 2003 Code on Corporate Governance (updated in 2018) and the 2020 Guidelines on Environmental Risk Management. Three of the 2020 guidelines – for banks, asset managers and insurance companies – have set important standards for sustainability in the financial sector. The financial institutions covered by these guidelines must comply with the standards and recommendations set out by MAS within an 18-month transition period, and MAS can consider compliance with the Guidelines in an overall risk assessment of the institutions. In addition, the Green Finance Industry Taskforce (GFIT), a committee convened by MAS, issued a consultation paper in January 2021 setting out a taxonomy for Singapore-based financial institutions to identify and classify activities as green or in transition.<sup>105</sup>

The financial sector has launched several initiatives, too. In 2018, the Association of Banks in Singapore (ABS) introduced the Guidelines on Responsible Financing, which define the minimum standards for responsible financing practices to be integrated in the business models of member banks and financial institutions, including ESG criteria.<sup>106</sup> The Singapore

Exchange introduced a listing rule in 2016 that requires listed companies to disclose an annual sustainability report, which at minimum should address how material ESG factors are selected and inform the policies, practices and performance related to these factors.<sup>107</sup>

A NAP on Business and Human Rights has not been developed.<sup>108</sup>

### 2.5.12 Thailand

Binding measures on ESG risk management and disclosure have not been introduced in Thailand. The government has introduced a voluntary certification scheme for companies to validate their CSR efforts.<sup>109</sup> More elaborate efforts have been driven by the private sector. In 2006, the Stock Exchange of Thailand launched its Principles of Good Governance (updated in 2017), and the Thai Bankers' Association issued its Responsible Lending Guidelines in August 2019, defining expectations of responsible lending practices for Thai banks based on (inter)national standards and guidelines. The implementation is led by the Bank of Thailand in collaboration with 15 Thai commercial banks.<sup>110</sup>

Thailand's NAP on Business and Human Rights was published in 2019<sup>111</sup> and has four priority areas:

- Labor;
- Community, land, environment and natural resources;
- Human rights defenders; and
- Cross-border investment and multinational enterprises.

### 2.5.13 Vietnam

In Vietnam, the National Green Growth Strategy 2021–2030 (successor of the National Green Growth Strategy 2011–2020) defines the country's main vision of sustainable development, although binding legislation for the financial sector in this area is still lacking. In 2015, the State Bank of Vietnam (SBV) issued the Directive on Promoting Green Credit Growth and Environmental and Social Risks Management in Credit Granting Activities, which seeks to promote a green economy and encourages all credit institutions to incorporate environmental and social risks in their transactions. The Directive includes a reporting template that requires credit institutions to report quantitative data quarterly to the SBV on ESG risk management of lending activities and green finance flows. In addition, the SBV has sought to implement national green growth strategies through the banking industry's action plan on the implementation of the SDGs, financial inclusion and green growth.<sup>112</sup>

In addition, Vietnam's Circular 39 contains principles relevant to ESG factors, including one that requires lending transactions between a credit institution and a customer to comply with all regulations and legislation on environmental protection, and the Circular Public Disclosure for Listed Companies (Ministry of Finance's circular no. 96/2020/TT-BTC), which requires listed companies to report on their impacts on society and the environment.<sup>113</sup> On 1 January 2022, the law on environmental protection came into effect, which outlines detailed regulations on mitigation of GHG emissions, environmental auditing, definitions of green bonds and credit and delegates responsibility to the SBV to guide financial institutions in environmental risk management.<sup>114</sup>

The Government of Vietnam is in the process of developing a NAP on Business and Human Rights, which is expected to be published in 2022.<sup>115</sup>

## CHAPTER 3

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# SOCIAL ISSUES AND BANKS' SUSTAINABILITY POLICIES

This chapter evaluates the extent to which financial institutions are influencing companies to adopt responsible business practices. It presents the findings of a policy assessment that scored how well the sustainability policies of financial institutions address social issues across five themes: gender equality, human rights, labor rights, financial inclusion and transparency and accountability. Section 3.1 explains the scope of the policy assessment and section 3.2 describes the methodology used to conduct the policy assessment and the relevance of each theme for financial institutions. Sections 3.3 to 3.7 present the scores and main findings.

### 3.1 Focus countries and banks

This chapter focuses on the policies of banks included in the Fair Bank Guides published by six Fair Finance Asia country partners:

- India (8 banks);
- Indonesia (11 banks);
- Japan (7 banks);
- Philippines (5 banks);
- Thailand (12 banks); and
- Vietnam (10 banks).

One of the top 15 agricultural creditors identified in the financial research is headquartered outside Asia – Rabobank in the Netherlands – but since Rabobank is a member of the Fair Finance International (FFI) network, it was included in the policy assessment.

The policy assessment therefore includes 54 banks (see Table 5).

The scores presented in this chapter are the results of policy assessments conducted between 2018 and 2020 by CSOs in various Asian countries, except for Rabobank, which was assessed by Profundo on behalf of the Dutch Fair Bank Guide in 2020.

**TABLE 5: Selected banks for the policy assessment**

Bank	FFA country
Bank of India	India
Federal Bank	India
HDFC Bank	India
IDFC Bank	India
Indian Overseas Bank (IOB)	India
Punjab National Bank (PNB)	India
State Bank of India (SBI)	India
YES Bank	India
Bank Pembangunan (BJB)	Indonesia
Bank Rakyat Indonesia (Bank BRI)	Indonesia
Bank Central Asia (BCA)	Indonesia
Bank Negara Indonesia (BNI)	Indonesia
CIMB Niaga	Indonesia
Bank Danamon	Indonesia
DBS	Indonesia
HSBC	Indonesia
Bank Mandiri	Indonesia

Bank	FFA country
Malayan Banking (Maybank)	Indonesia
PermataBank	Indonesia
Japan Post Bank	Japan
Mizuho Financial	Japan
Mitsubishi UFJ Financial Group (MUFG)	Japan
Norinchukin Bank	Japan
Resona Bank	Japan
SMBC Group	Japan
Sumitomo Mitsui Trust Holdings (SMTH)	Japan
Rabobank	Netherlands (The)
BDO Unibank	Philippines
Bank of Philippine Islands (BPI)	Philippines
Land Bank of the Philippines (LBP)	Philippines
Metropolitan Bank and Trust Company (Metrobank)	Philippines
Rizal Commercial Banking Corporation (RCBC)	Philippines
Bangkok Bank	Thailand
Bank of Ayudhya (BAY)	Thailand
Bank for Agriculture and Agricultural Cooperatives (BAAC)	Thailand
Government Housing Bank (GHB)	Thailand
Government Savings Bank (GSB)	Thailand
Kasikornbank (KBank)	Thailand
Kiatnakin Phatra Bank (Kiatnakin Bank)	Thailand
Krung Thai Bank (KTB)	Thailand
Siam Commercial Bank (SCB)	Thailand
Small and Medium Enterprise Development Bank (SME D Bank)	Thailand
Thai Military Bank <sup>iv</sup> (TMB)	Thailand
TISCO Bank	Thailand
Vietnam Bank for Agriculture and Rural Development (Agribank)	Vietnam
Bank for Investment and Development of Vietnam (BIDV)	Vietnam
Vietnam Export Import Commercial Joint Stock Bank (Eximbank)	Vietnam
LienVietPostBank	Vietnam

<sup>iv</sup> In 2019, TMB agreed to merge with Thanachart Bank, a retail bank in Thailand. During the 2021 Annual General Assembly, shareholders approved to change the name of the new bank to TMBThanachart (ttb). The policy assessment presented in this report refers to TMB.

Bank	FFA country
Vietnam Technological and Commercial Joint Stock Bank (Techcombank)	Vietnam
Bank for Foreign Trade of Vietnam (Vietcombank)	Vietnam
Vietnam Joint Stock Commercial Bank for Industry and Trade (Vietinbank)	Vietnam
Vietnam International Bank (VIB)	Vietnam
Vietnam Maritime Commercial Joint Stock Bank (MSB)	Vietnam
Vietnam Prosperity Bank (VPBank)	Vietnam

### 3.2 Methodology and time frame

To evaluate financial institutions, the FFA network, together with independent research organization Profundo, developed the Fair Finance methodology, FFGI, which analyses the lending and investment policies of financial institutions for 23 cross-cutting issues and specific sectors. It uses publicly available information disclosed by financial institutions and is updated every one to two years to align with the latest international standards and incorporate new data from across the FFA network. The latest methodology<sup>116</sup> is based on more than 422 international standards and criteria and is the fifth update since it was developed in 2014.

All Fair Finance coalitions operating in Asia, Latin America and Europe use this methodology to regularly assess the financial institutions in their countries. National Fair Finance coalitions share their policy assessments with the financial institutions before publication to collect their feedback. The assessments are then finalized and released on the national Fair Finance Guide websites or the regional FFA website.<sup>117</sup>

The Fair Finance coalitions update the policy assessments once a year or every two years. Table 6 reports the time frames of the last policy assessments conducted by Fair Finance coalitions active in the focus countries reported in section 3.1. The authors of the report acknowledge that some of the data presented in the following sections might be outdated.

**TABLE 6: Research time frames, by country**

Country	Publication	Date of the policies analyzed
India	2020	2019
Indonesia	2020	2019
Japan	2020	2019
Netherlands	2020	2019
Philippines	2020	2019
Thailand	2020	2019
Vietnam	2021	2020

The results of the policy assessments have been used to analyze how financial institutions integrate social issues in their policies and risk management frameworks. Policies were assessed in five thematic areas:

- ⦿ Gender equality;
- ⦿ Human rights;
- ⦿ Labor rights;
- ⦿ Financial inclusion; and
- ⦿ Transparency and accountability.

The following sections examine the relevance of each theme for financial institutions in Asia, the banks' scores and the main findings of the policy assessments.

## 3.3 Gender equality

### 3.3.1 What is at stake?

While gender inequalities also affect men and transgender individuals and can be applied at the level of sexual orientation (LGBTQI+), this theme focuses on women. Women's rights are recognized as fundamental human rights and are at the basis of the United Nations' sustainable development efforts, agreements and ambitions, including the Convention on the Elimination of All Forms of Discrimination against Women (1979). Furthermore, the ILO specifically addresses gender equality in relation to labor, on topics such as equal remuneration, maternity protection and discrimination. In 2019, the ILO released the Convention on Violence and Harassment in the World of Work (C190) which, for the first time, covered the right to work free from violence and harassment, and explicitly highlighted gender.<sup>118</sup>

The ASEAN RAI guidelines recognize the responsibility of financial institutions to foster gender equality and empowerment for women through their investments in the food, agriculture and forestry sector. The guidelines state that agribusinesses and investors in the sector should ensure women are included in decision-making, contribute to building a diverse pipeline of talent (including at senior-level positions) and adopt policies and processes to prevent gender discrimination and harassment.<sup>119</sup>

Gender inequality not only deprives women of their individual freedoms and capabilities, but also harms economies. In a 2021 report, economists at BofA Securities estimated that closing the gender and race gaps would have generated \$2.6 trillion more in economic output in 2019, and the cumulative gains starting in 1990 would have been close to \$70 trillion.<sup>120</sup>

Promoting gender equality in the operations of companies and financial institutions can therefore effect positive change, both across sectors and at different organizational levels. Many companies are only just beginning to consider the gender-specific impact of their policies and practices. Financial institutions can accelerate the transition to more gender-balanced workplaces free of harassment and discrimination by, first, setting targets and introducing training programs to provide a path for female staff to advance to senior positions. Second, they can integrate gender considerations in due diligence for financing, paying special attention to how companies assess and mitigate the human rights risks people face because of their gender.

### 3.3.2 Bank scores

Table 7 shows how banks scored on gender equality on a scale from 0 to 10.

**TABLE 7: Bank scores: Gender equality (/10)**

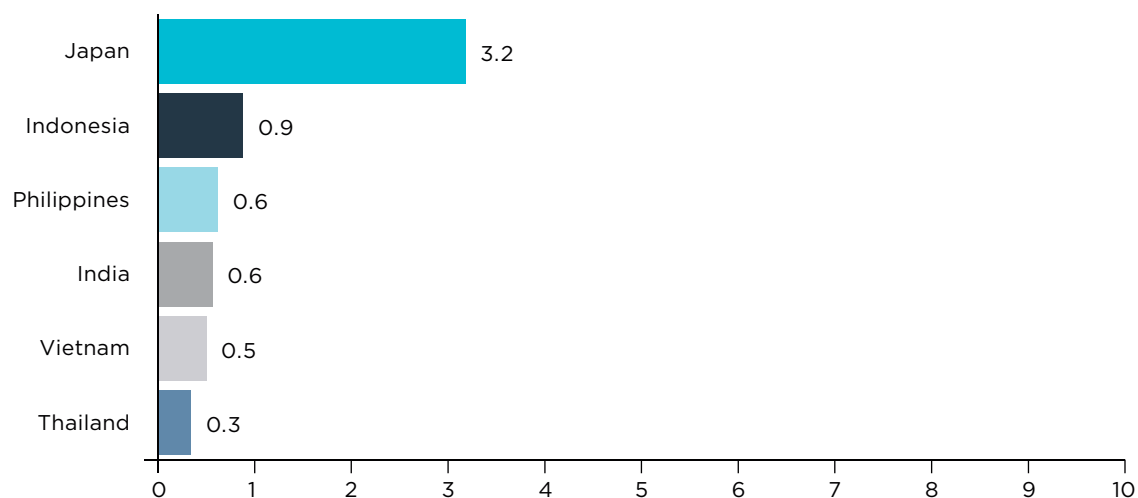
Bank	Country	Score
Sumitomo Mitsui Trust Holdings (SMTTH)	Japan	4.1
Resona Bank	Japan	3.7
Mitsubishi UFJ Financial Group (MUFG)	Japan	3.2
Mizuho Financial	Japan	3.2
SMBC Group	Japan	3.2
DBS	Indonesia	3.1
Rabobank	Netherlands	3.1
Norinchukin Bank	Japan	3.0
Vietnam Maritime Commercial Joint Stock Bank (MSB)	Vietnam	2.3
Japan Post Bank	Japan	2.0
Thai Military Bank (TTB)	Thailand	2.0
HSBC	Indonesia	1.8
Bank Danamon	Indonesia	1.3
Bank of Philippine Islands (BPI)	Philippines	1.3
BDO Unibank	Philippines	1.3
Malayan Banking (Maybank)	Indonesia	1.3
PermataBank	Indonesia	1.0
Vietnam Prosperity Bank (VPBank)	Vietnam	1.0
YES Bank	India	1.0
IDFC Bank	India	0.8
Federal Bank	India	0.7
HDFC Bank	India	0.7
Indian Overseas Bank (IOB)	India	0.7
Kasikornbank (KBank)	Thailand	0.7
Kiatnakin Phatra Bank (Kiatnakin Bank)	Thailand	0.7
Krung Thai Bank (KTB)	Thailand	0.7
Bank for Investment and Development of Vietnam (BIDV)	Vietnam	0.7
Vietnam Joint Stock Commercial Bank for Industry and Trade (Vietinbank)	Vietnam	0.7

Bank	Country	Score
Rizal Commercial Banking Corporation (RCBC)	Philippines	0.5
LienVietPostBank	Vietnam	0.3
Bank Negara Indonesia (BNI)	Indonesia	0.3
Bank of India	India	0.3
Bank Pembangunan (BJB)	Indonesia	0.3
Bank Rakyat Indonesia (Bank BRI)	Indonesia	0.3
CIMB Niaga	Indonesia	0.3
Punjab National Bank (PNB)	India	0.3
Vietnam Bank for Agriculture and Rural Development (Agribank)	Vietnam	0.0
Bangkok Bank	Thailand	0.0
Bank Central Asia (BCA)	Indonesia	0.0
Bank for Agriculture and Agricultural Cooperatives (BAAC)	Thailand	0.0
Bank Mandiri	Indonesia	0.0
Bank of Ayudhya (BAY)	Thailand	0.0
Vietnam Export Import Commercial Joint Stock Bank (Eximbank)	Vietnam	0.0
Government Housing Bank (GHB)	Thailand	0.0
Government Savings Bank (GSB)	Thailand	0.0
Land Bank of the Philippines (LBP)	Philippines	0.0
Metropolitan Bank and Trust Company (Metrobank)	Philippines	0.0
Siam Commercial Bank (SCB)	Thailand	0.0
Small and Medium Enterprise Development Bank	Thailand	0.0
State Bank of India	India	0.0
Techcombank	Vietnam	0.0
TISCO Bank	Thailand	0.0
Vietcombank	Vietnam	0.0
Vietnam International Bank (VIB)	Vietnam	0.0

### 3.3.3 Average scores per country

Figure 47 shows the average score for each country on a scale from 0 to 10. Given that only one bank from the Netherlands (Rabobank) was part of the policy assessment for this study, it was not meaningful to present an average score for the Netherlands and, therefore, the country does not appear in the figure.

**FIGURE 47: Average score per country: Gender equality (/10)\***



\* Refer to section 3.1 for country coverage and banks, and section 3.2 to understand the methodology and timeframe of data collection

### 3.3.4 Main findings

The banks' gender equality scores were very low overall, with an average score of 1.0 out of 10.0, and a median of 0.7. More than 30% received a score of 0.0, evidence of a complete lack of disclosure on this topic. Where policies or measures to foster gender equality were identified, they were usually related to the banks' own operations. Indeed, 89% of the financial institutions assessed did not disclose information on how gender issues are addressed in their relationships with clients or investee companies.

At the country level, Japanese banks ranked highest in gender equality (see Figure 47) with Sumitomo Mitsui Trust Holdings (SMTH) receiving the highest score of 4.1. No other banks in the region scored above 4.0. The bank has policies in place to improve gender equality and reports on initiatives such as training and awareness raising to advance female employees to managerial positions. In addition, SMTH explained that it has engaged with its investees to increase female representation on company boards.

Rabobank ranked behind Japanese banks on gender equality because it did not explain how or whether gender equality is addressed in its lending and investments.

Among the Indonesian banks, DBS stood out with a score of 3.1. The bank has a system to monitor pay equity and disclose the gender pay gap across all markets, and it commits to preventing gender discrimination of its customers. It should be noted that the bank is internationally based, and group policies are in many cases applied to subsidiaries, which could explain the more transparent and formal policies compared to banks that are headquartered in Indonesia.

None of the banks assessed in the Philippines, Vietnam or India required the companies they invest in to have measures that protect employees from physical or sexual harassment or to have a zero-tolerance policy for gender discrimination.

Overall, the banks assessed in this study lacked ambitious targets, such as a minimum of 30% women on their boards of directors and executive committees or in senior management positions. Training aimed at empowering women to access senior-level positions was uncommon.

Even more worrying is that none of the banks appeared to conduct gender due diligence in their lending and investment activities. This is a missed opportunity to influence the businesses they invest in to assess their gender risks and prevent or mitigate gender discrimination and harassment.

## 3.4 Human rights

### 3.4.1 What is at stake?

Human rights are rights and freedoms inherent to all human beings, regardless of nationality, place of residence, sex, national or ethnic origin, color, religion, language or any other status.<sup>121</sup> The rights and freedoms that are generally considered human rights include civil and political rights – such as the right to life, freedom of expression and equality before the law – and economic, social and cultural rights – such as the right to an adequate standard of living, the right to food, work and education. Human rights also include collective rights, such as rights to development and self-determination.

The United Nations Guiding Principles on Business and Human Rights (UNGPs), which were unanimously endorsed by the United Nations Human Rights Council in 2011, are the global standard for corporate responsibility to respect human rights. These Principles apply to “*all States and to all business enterprises, both transnational and others, regardless of their size, sector, location, ownership and structure*”,<sup>122</sup> and rely on three main pillars:

- ③ The state duty to protect against human rights abuses by third parties, including business enterprises;
- ③ The corporate responsibility to respect human rights; and
- ③ The need for greater access by victims to effective remedy.

Actual and/or potential adverse impacts on human rights are particularly high in the agriculture sector (see chapter 4) and the COVID-19 pandemic has exacerbated violations of the rights of local communities, smallholder farmers and women.

Banks can be involved in human rights violations through their own activities (e.g. their relationships with employees or suppliers) or through their business relationships (e.g. their products and services) with companies that are responsible for harmful practices. In 2017, John G. Ruggie, the former UN Secretary-General’s Special Representative for Business and Human Rights who wrote the UNGPs, clarified the interpretation of the UNGPs in a corporate and investment banking context, explaining that banks (private or public) can also cause and contribute to human rights harm through their financing and should be responsible for providing remedy in such cases.<sup>123</sup>

Over the past few years, momentum has been growing to introduce mandatory human rights due diligence for businesses, including banks and other financial institutions. Some governments have already introduced legislation, and the United Nations Intergovernmental Working Group is working on a proposed binding treaty on business and human rights that will also apply to financial institutions and investment funds.<sup>124</sup> While binding regulation

on business and human rights has not yet been adopted by ASEAN Member States, the ASEAN RAI Guidelines recommend that the financial sector “*require comprehensive and rigorous human rights due diligence for investment project affecting indigenous peoples, local communities and other marginalised groups.*”<sup>125</sup>

Under this theme, banks were assessed on their commitment to respect the UNGPs in their internal operations, but more specifically in their business relationships. The theme assessed the safeguards in bank policies to ensure that the companies they finance or invest in commit to respect human rights, to establish or participate in effective, operational-level grievance mechanisms for individuals and communities that may be adversely affected, and to have processes to enable remediation. Banks were also assessed on whether they require their clients or investee companies to prevent conflicts over land rights by acquiring natural resources only with the free, prior and informed consent (FPIC) of Indigenous peoples or people with customary tenure rights.

### 3.4.2 Bank scores

Table 8 shows how banks scored on human rights, on a scale from 0 to 10.

**TABLE 8: Bank scores: Human rights (/10)**

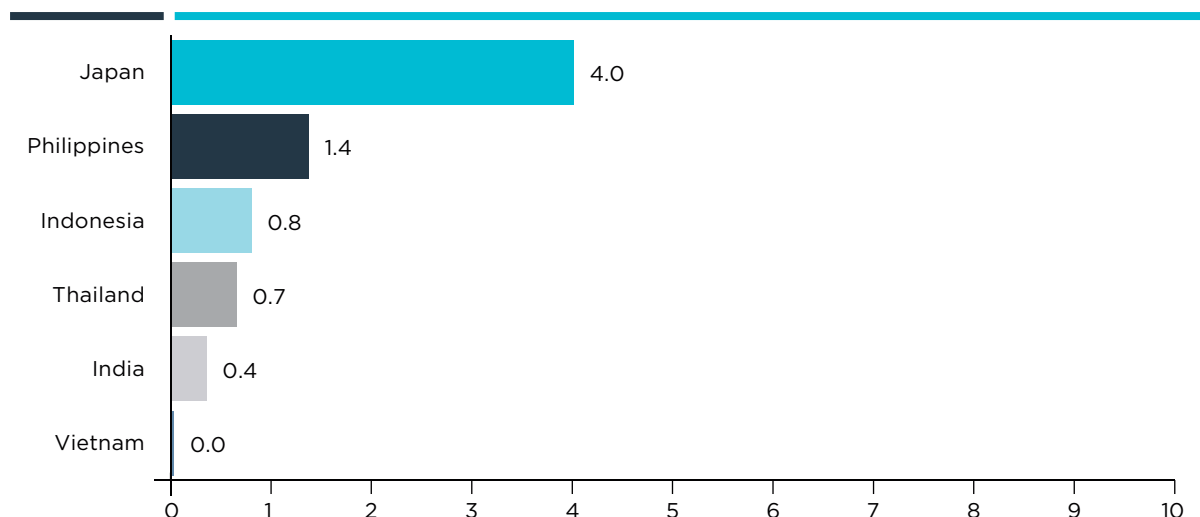
Bank	Country	Score
Rabobank	Netherlands	8.3
Norinchukin Bank	Japan	5.7
HSBC	Indonesia	5.1
Sumitomo Mitsui Trust Holdings (SMTH)	Japan	5.0
Resona Bank	Japan	4.5
TMBThanachart (TTB)	Thailand	4.2
Mizuho Financial	Japan	4.2
Mitsubishi UFJ Financial Group (MUFG)	Japan	4.2
SMBC Group	Japan	3.8
Rizal Commercial Banking Corporation (RCBC)	Philippines	3.5
DBS	Indonesia	2.2
IDFC Bank	India	2.1
BDO Unibank	Philippines	1.9
Land Bank of the Philippines (LBP)	Philippines	1.5
Bangkok Bank	Thailand	1.3
Japan Post Bank	Japan	0.8
Bank Central Asia (BCA)	Indonesia	0.8
Bank Rakyat Indonesia (Bank BRI)	Indonesia	0.8
Kasikornbank (KBank)	Thailand	0.8
Krung Thai Bank (KTB)	Thailand	0.8

Bank	Country	Score
Siam Commercial Bank (SCB)	Thailand	0.8
YES Bank	India	0.8
Vietnam Prosperity Bank (VPBank)	Vietnam	0.4
Vietnam Bank for Agriculture and Rural Development (Agribank)	Vietnam	0.0
Bank Danamon	Indonesia	0.0
Bank for Agriculture and Agricultural Cooperatives (BAAC)	Thailand	0.0
Bank Mandiri	Indonesia	0.0
Bank Negara Indonesia (BNI)	Indonesia	0.0
Bank of Ayudhya (BAY)	Thailand	0.0
Bank of India	India	0.0
Bank of Philippine Islands (BPI)	Philippines	0.0
Bank Pembangunan (BJB)	Indonesia	0.0
Bank for Investment and Development of Vietnam (BIDV)	Vietnam	0.0
CIMB Niaga	Indonesia	0.0
Vietnam Export Import Commercial Joint Stock Bank (Eximbank)	Vietnam	0.0
Federal Bank	India	0.0
Government Housing Bank (GHB)	Thailand	0.0
Government Savings Bank (GSB)	Thailand	0.0
HDFC Bank	India	0.0
Indian Overseas Bank (IOB)	India	0.0
Kiatnakin Phatra Bank (Kiatnakin Bank)	Thailand	0.0
LienVietPostBank	Vietnam	0.0
Malayan Banking (Maybank)	Indonesia	0.0
Metropolitan Bank and Trust Company (Metrobank)	Philippines	0.0
PermataBank	Indonesia	0.0
Punjab National Bank (PNB)	India	0.0
Small and Medium Enterprise Development Bank	Thailand	0.0
State Bank of India	India	0.0
Techcombank	Vietnam	0.0
TISCO Bank	Thailand	0.0
Vietcombank	Vietnam	0.0
Vietnam Joint Stock Commercial Bank for Industry and Trade (Vietinbank)	Vietnam	0.0
Vietnam International Bank (VIB)	Vietnam	0.0
Vietnam Maritime Commercial Joint Stock Bank (MSB)	Vietnam	0.0

### 3.4.3 Average scores per country

Figure 48 shows the average scores of the banks in each country (except the Netherlands), on a scale from 0 to 10.

**FIGURE 48: Average score per country: Human rights (/10)\***



\* Refer to section 3.1 for country coverage and banks, and section 3.2 to understand the methodology and timeframe of data collection

### 3.4.4 Main findings

Most of the banks did not consider human rights issues in their transactions. For the 53 banks, the average score on this topic was 1.2 out of 10.0, and 57% received a score equal to zero. Only four banks scored higher or equal to 5.0 out of 10.0, namely Rabobank (8.3), Norinchukin Bank (5.7), HSBC (5.1) and Sumitomo Mitsui Trust Holdings (5.0).

Banks in Vietnam recorded the lowest scores (0.0 out of 10), as they did not disclose any human rights policies. Banks in India (0.4), Thailand (0.7), Indonesia (0.8) and the Philippines (1.4) also appeared to pay little attention to human rights topics in their publicly disclosed policies.

Japanese banks performed a bit better, with an average score of 4.0 out of 10. Japan Post lagged behind the others with a score of 0.8 out of 10 while Norinchukin Bank topped the rankings. The bank discloses a human rights policy in which it commits to respect human rights in all aspects of its business activities and operations and “*supports and respects international standards such as the Universal Declaration of Human Rights, the International Covenant on Economic, Social and Cultural Rights, the International Covenant on Civil and Political Rights, the International Labor Organization (ILO) Declaration on Fundamental Principles and Rights at Work, the United Nations Guiding Principles on Business and Human Rights, the United Nations Global Compact, and the OECD Guidelines for Multinational Enterprises.*”<sup>126</sup>

Banks with a score higher than 4.0 out of 10 often disclosed a human rights policy that referenced the UNGPs or other international standards, such as the OECD Guidelines for Multinational Enterprises or the UN Global Compact. The assessment revealed that only nine of the 53 banks required their clients to adopt a human rights policy. These banks are Rabobank, all the Japanese banks but Japan Post, HSBC and the Philippine bank Rizal Commercial Banking Corporation (RCBC).

For instance, RCBC reported that it has adopted an environmental and social management system that requires all lending and project finance operations to be reviewed from an environmental and social risk perspective, both before the approval of the operations and during the loan agreement. As part of this framework, transactions are assessed against the IFC Exclusion List, the national and local laws of the country and the IFC Performance Standards.

Banks that committed to applying the environmental and social risk framework of the Equator Principles in their project finance activities, including due diligence aligned with the IFC Performance Standards, received higher scores. These standards cover human rights issues such as land rights, the rights of Indigenous peoples and local communities. Under the Equator Principles, the banks should also require companies to give special attention to respecting the rights of women, especially to prevent discrimination and to improve equal treatment of men and women. However, the scope of the Equator Principles is limited to transactions related to specific projects. It does not apply to loans for general purposes or to asset management activities for which banks have disclosed limited information.

While many CSOs continue to denounce conflicts over land rights in Southeast Asia, all the Asian banks remain silent on that issue and do not ask their clients to acquire natural resources with the FPIC of the land users involved.

This is not in line with the ASEAN RAI guidelines, which state that responsible investment in food, agriculture and forestry in ASEAN should respect tenure of land, fisheries and forests, as well as access to water, by recognizing the rights of Indigenous peoples and local communities to FPIC for any investments in their customary lands and forests, and ensuring that FPIC is obtained.<sup>127</sup>

Only Rabobank has an advanced policy on this topic and disclosed a land governance policy in which it commits to “*promote sound and fair land governance practices, including the Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forests in the context of national food security (VGGT)*” and to “*encourage clients to deal responsibly with land governance, including respecting land tenure and land rights and the right to free, prior and informed consent of all stakeholders regarding changes in land ownership or land use, addressing gender issues in land governance, and implementing proper grievance and dispute resolution mechanisms which are communicated in a culturally appropriate and understandable way*”.<sup>128</sup>

## 3.5 Labor rights

### 3.5.1 What is at stake?

Protecting people in their working environment is a fundamental responsibility of companies and governments. According to the ILO, companies should engage in fair recruitment practices and should be able to prove that their employees have a safe work environment, are not discriminated against or mistreated, can deal freely with colleagues, labor unions and representative organizations and are remunerated fairly for their services. These basic rights apply to all employees, without distinction of any kind, such as race, color, sex, language, religion, political or other opinion, national or social origin, property, birth or other status.

When conducting due diligence for labor rights, businesses should pay special attention to vulnerable populations, such as women, children, migrant workers and their families. SDG 8:

Decent Work and Economic Growth mentions different targets, including: “by 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value”, “take immediate and effective measures to eradicate forced labor, end modern slavery and human trafficking and secure the prohibition and elimination of the worst forms of child labor, including recruitment and use of child soldiers, and by 2025 end child labor in all its forms” or “protect labor rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment”.<sup>129</sup>

The “Asia and the Pacific SDG Progress Report 2021” highlights that progress in the region on decent work and economic growth (SDG 8) has been very slow since 2000.<sup>130</sup> Among other priorities, the report stresses the importance of accelerating progress in protecting labor rights, providing employment opportunities for youth and improving safety at work.<sup>131</sup> The ASEAN Guidelines for Promoting Responsible Investments in Food, Agriculture and Forestry (see section 2.3.1) highlight that one key responsibility of agribusinesses and large-scale investors in food, agriculture and forestry sectors is to “provide decent, stable and well-paying jobs, and paying fair prices to outgrowers, to enable the purchase of quality, diverse, safe and nutritious food”.<sup>132</sup>

For more details on labor rights issues in Asia’s agricultural sector, see chapter 4.

This theme assesses the extent to which the policies of financial institutions ensure they only invest in or finance companies that respect labor rights and provide decent jobs, and ensure proper working conditions in line with international standards, such as the ILO Declaration on Fundamental Principles and Rights at Work.

### 3.5.2 Bank scores

Table 9 shows how banks scored on labor rights, on a scale from 0 to 10.

**TABLE 9: Bank scores: Labor rights (/10)**

Bank	Country	Score
Rabobank	Netherlands	7.3
Norinchukin Bank	Japan	5.9
Sumitomo Mitsui Trust Holdings (SMTH)	Japan	5.8
Mizuho Financial	Japan	5.4
HSBC	Indonesia	5.3
Mitsubishi UFJ Financial Group (MUFG)	Japan	5.3
SMBC Group	Japan	5.1
Rizal Commercial Banking Corporation (RCBC)	Philippines	4.8
TMBThanachart (TTB)	Thailand	4.7
DBS	Indonesia	3.9
IDFC Bank	India	3.9

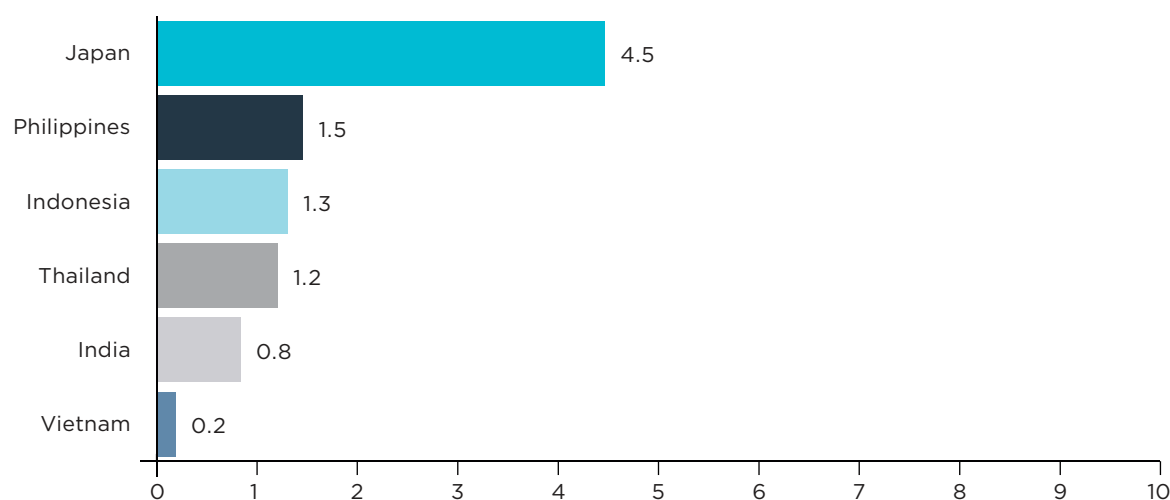
Bank	Country	Score
Kasikornbank (KBank)	Thailand	2.5
Resona Bank	Japan	2.3
Bangkok Bank	Thailand	2.3
Siam Commercial Bank (SCB)	Thailand	2.3
BDO Unibank	Philippines	2.1
HDFC Bank	India	1.5
Japan Post Bank	Japan	1.5
Krung Thai Bank (KTB)	Thailand	1.3
Malayan Banking (Maybank)	Indonesia	1.0
YES Bank	India	1.0
Bank for Investment and Development of Vietnam (BIDV)	Vietnam	1.0
Vietnam Prosperity Bank (VPBank)	Vietnam	1.0
Bank Danamon	Indonesia	0.7
Bank Mandiri	Indonesia	0.7
Bank Negara Indonesia (BNI)	Indonesia	0.7
Bank of Ayudhya (BAY)	Thailand	0.7
Bank Pembangunan (BJB)	Indonesia	0.7
Bank Rakyat Indonesia (Bank BRI)	Indonesia	0.7
CIMB Niaga	Indonesia	0.7
Government Housing Bank (GHB)	Thailand	0.7
Bank of Philippine Islands (BPI)	Philippines	0.4
Federal Bank	India	0.3
Vietnam Bank for Agriculture and Rural Development (Agribank)	Vietnam	0.0
Bank Central Asia (BCA)	Indonesia	0.0
Bank for Agriculture and Agricultural Cooperatives (BAAC)	Thailand	0.0
Bank of India	India	0.0
Vietnam Export Import Commercial Joint Stock Bank (Eximbank)	Vietnam	0.0
Government Savings Bank (GSB)	Thailand	0.0
Indian Overseas Bank (IOB)	India	0.0
Kiatnakin Phatra Bank (Kiatnakin Bank)	Thailand	0.0
Land Bank of the Philippines (LBP)	Philippines	0.0
LienVietPostBank	Vietnam	0.0
Metropolitan Bank and Trust Company (Metrobank)	Philippines	0.0
PermataBank	Indonesia	0.0

Bank	Country	Score
Punjab National Bank (PNB)	India	0.0
Small and Medium Enterprise Development Bank	Thailand	0.0
State Bank of India	India	0.0
Techcombank	Vietnam	0.0
TISCO Bank	Thailand	0.0
Vietcombank	Vietnam	0.0
Vietnam Joint Stock Commercial Bank for Industry and Trade (Vietinbank)	Vietnam	0.0
Vietnam International Bank (VIB)	Vietnam	0.0
Vietnam Maritime Commercial Joint Stock Bank (MSB)	Vietnam	0.0

### 3.5.3 Average scores per country

Figure 49 provides the average labor rights score per country, on a scale from 0 to 10 (excluding the Netherlands).

**FIGURE 49: Average score per country: Labor rights (/10)\***



\* Refer to section 3.1 for country coverage and banks, and section 3.2 to understand the methodology and timeframe of data collection

### 3.5.4 Main findings

Country scores on labor rights were all low except for Japan. Average scores ranged from 0.2 for Vietnamese banks to 4.6 for Japanese banks. More than half (55%) of the banks assessed had a score lower than 1.0 out of 10.0.

The highest score was achieved by Rabobank (7.3 out of 10), which has committed to respect the ILO Declaration on Fundamental Principles and Rights at Work in its own operations and expects all its clients and investee companies to do the same. The ILO Declaration includes a commitment to respecting and promoting principles and rights in four categories:

freedom of association and the effective recognition of the right to collective bargaining, the elimination of forced or compulsory labor, the abolition of child labor and the elimination of discrimination in respect of employment and occupation. In addition, Rabobank requires its clients and investee companies to adopt a robust health and safety policy and to ensure equal treatment and working conditions for migrant workers.

All the Japanese banks evaluated have committed to respect the ILO Declaration on Fundamental Principles and Rights at Work in their own operations. Among them, Norinchukin Bank and SMTH achieved the highest score in labor rights because they commit to applying the ILO Declaration in all their lending activities (not only in project finance transactions). SMTH also applies this requirement to its third-party asset management activities, and Norinchukin Bank to the investment of its proprietary assets.

All banks that are signatories of the Equator Principles received a higher score based on the application of the IFC Performance Standards in their project finance transactions. Two standards cover some of the topics addressed by the FFGI methodology: Performance Standard 2 on Labor and Working Conditions and Performance Standard 4 on Community Health, Safety and Security. In the Philippines, RCBC was the most advanced in terms of its consideration of labor rights issues because it applies the IFC Performance Standards not only to project finance, but to all its lending activities.

Among Thai banks, TMB Thanachart Bank, launched in 2021 following the merger of TMB and Thanachart Bank, received a score of 4.7 out of 10.0. The bank discloses a human rights policy,<sup>133</sup> which also applies to its customers, in which it commits to “*strictly adhere and comply*” with international standards, including the ILO Declaration on Fundamental Principles and Rights at Work and the UNGPs. In addition, the bank excludes funding and services to clients whose “*activities involve human and/or labor rights abuses and/or where such violations exist or are evident in their operations*”.<sup>134</sup> To monitor this, the bank integrates environmental and social criteria in its due diligence with clients, including employment conditions.

None of the banks assessed appear to integrate the topics of living wage and maximum working hours in their due diligence with clients despite evidence that both are salient human rights issues in the agriculture sector (see section 4.6).

## 3.6 Financial inclusion

### 3.6.1 What is at stake?

Access to finance and credit enables individuals and households to secure homes, invest in education and skills, obtain loans for health or medicine, stabilize fluctuations in income and expenses and start or expand a business. Fostering financial inclusion is closely related to the achievement of various SDGs, including SDG 1: No Poverty, SDG 5: Gender Equality and SDG 10: Reduced Inequality. The ASEAN RAI Guidelines recognize the important role financial institutions can play in implementing the guidelines, including developing products tailored to the needs of smallholders and using innovative financial technologies to efficiently determine creditworthiness, deliver funds and generally increase access to finance.<sup>135</sup>

This theme assesses the efforts of banks to offer services and products that are accessible (including in rural areas) and affordable, target marginal and underserved groups at reasonable costs and contribute to the financial literacy of low-income and marginalized populations and MSMEs.

### 3.6.2 Bank scores

Table 10 shows how banks scored on financial inclusion, on a scale from 0 to 10. Banks in five countries were assessed on this theme: India, Indonesia, Philippines, Thailand and Vietnam. No data is presented for the Netherlands or Japan.

**TABLE 10: Bank scores: Financial inclusion (/10)**

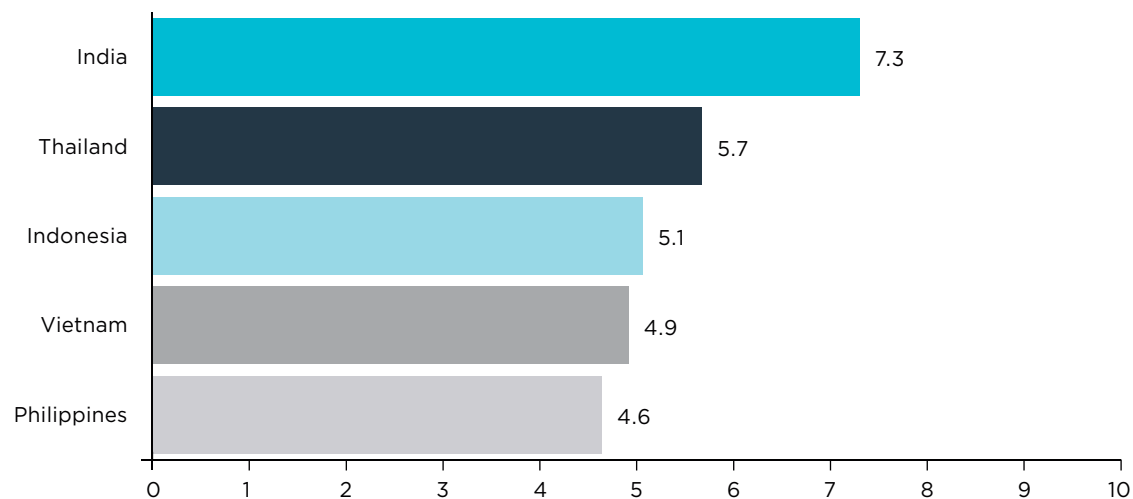
Bank	Country	Score
YES Bank	India	8.1
Bank Negara Indonesia (BNI)	Indonesia	7.7
HDFC Bank	India	7.7
Krung Thai Bank (KTB)	Thailand	7.7
State Bank of India	India	7.7
Federal Bank	India	7.3
Indian Overseas Bank (IOB)	India	7.3
Punjab National Bank (PNB)	India	7.3
Vietnam Bank for Agriculture and Rural Development (Agribank)	Vietnam	7.2
Bank of India	India	6.5
HSBC	Indonesia	6.5
IDFC Bank	India	6.5
Bank Mandiri	Indonesia	6.2
Siam Commercial Bank (SCB)	Thailand	6.2
Vietnam Prosperity Bank (VPBank)	Vietnam	6.2
Bangkok Bank	Thailand	6.1
Bank of Ayudhya (BAY)	Thailand	6.1
Kasikornbank (KBank)	Thailand	6.1
Kiatnakin Phatra Bank (Kiatnakin Bank)	Thailand	6.1
TMBThanachart (TTB)	Thailand	6.1

Bank	Country	Score
LienVietPostBank	Vietnam	5.9
Land Bank of the Philippines (LBP)	Philippines	5.8
Bank Central Asia (BCA)	Indonesia	5.4
Bank for Agriculture and Agricultural Cooperatives (BAAC)	Thailand	5.4
CIMB Niaga	Indonesia	5.4
Government Savings Bank (GSB)	Thailand	5.4
TISCO Bank	Thailand	5.3
Vietnam Joint Stock Commercial Bank for Industry and Trade (Vietinbank)	Vietnam	5.2
Rizal Commercial Banking Corporation (RCBC)	Philippines	5.1
Bank for Investment and Development of Vietnam (BIDV)	Vietnam	5.1
Vietnam Maritime Commercial Joint Stock Bank (MSB)	Vietnam	4.8
Bank of Philippine Islands (BPI)	Philippines	4.6
Bank Pembangunan (BJB)	Indonesia	4.6
Bank Rakyat Indonesia (Bank BRI)	Indonesia	4.6
BDO Unibank	Philippines	4.6
Malayan Banking (Maybank)	Indonesia	4.6
Vietnam Export Import Commercial Joint Stock Bank (Eximbank)	Vietnam	4.3
Techcombank	Vietnam	3.8
Bank Danamon	Indonesia	3.8
Government Housing Bank (GHB)	Thailand	3.8
PermataBank	Indonesia	3.8
Small and Medium Enterprise Development Bank	Thailand	3.8
Vietnam International Bank (VIB)	Vietnam	3.6
DBS	Indonesia	3.1
Metropolitan Bank and Trust Company (Metrobank)	Philippines	3.1
Vietcombank	Vietnam	3.1

### 3.6.3 Average scores per country

Figure 50 shows the average score per country on financial inclusion, on a scale from 0 to 10.

**FIGURE 50: Average score per country: Financial inclusion (/10)\***



\* Refer to section 3.1 for country coverage and banks, and section 3.2 to understand the methodology and timeframe of data collection

### 3.6.4 Main findings

All the banks assessed placed greater emphasis on financial inclusion in their public policies, which is reflected in their scores. The average score was 5.5 out of 10, with 64% of the banks achieving a score higher than 5.0 out of 10.

As shown in Figure 50, banks in India had the highest average score (7.3 out of 10). All Indian banks achieved scores between 6.5 and 8.1 on financial inclusion. The policy assessment found that all eight Indian banks have branches in rural areas and offer services and products that specifically target the poor and marginalized populations. There have also been efforts by the Government of India and the Reserve Bank of India (RBI) over the past several years to promote financial inclusion. In August 2021, the RBI introduced the Financial Inclusion Index (FI-Index) to capture the extent of financial inclusion in the country. The index collects information on various aspects of financial inclusion and will be updated every year.<sup>136</sup> In line with regulatory guidelines, the banks report they do not obtain collateral security for loans up to Rs.10 Lakhs (approximately \$13,000). Furthermore, most Indian banks provide bank accounts that do not require a minimum balance (YES Bank, Federal Bank, Bank of India, HDFC Bank, State Bank of India, PNB and IOB). Four Indian banks have a policy to disclose client's rights and the risks of products or services (YES Bank, Federal Bank, Punjab National Bank and HDFC Bank). Moreover, all Indian banks carry out financial literacy activities.

Thai banks have also shown significant efforts to promote financial inclusion, with 10 of the 12 banks achieving scores higher than 5.0 out of 10.

Banks with a specific mandate to promote development and foster the financial inclusion of farmers achieved a high score, including Agribank in Vietnam (7.3) and Land Bank of the Philippines, which scored highest among the Philippine banks (5.8).

Of all the banks assessed on financial inclusion, 86% offered services and products that specifically target poor and marginalized populations, and 85% have developed programs to improve the financial literacy of low-income, marginalized populations and/or MSMEs. Seventy-three percent of the banks have branches in rural areas to ensure their products and services are accessible to rural residents.

However, only seven banks (Federal Bank, HDFC Bank, Punjab National Bank, Yes Bank, DBS, HSBC and BDO Unibank) reported that they have committed to disclose client's rights and the risks associated with the products and services (including the risk of over-indebtedness) they offer to clients with low literacy and to MSMEs.

## 3.7 Transparency and accountability

### 3.7.1 What is at stake?

Every individual has the right to know the consequences of business activities on their life and the risks they are exposed to because of these activities. People whose lives are affected by business activities cannot defend their legitimate interests if they are not fully informed of the social, economic and environmental advantages, as well as the costs and risks associated with that activity. They must also understand potential alternatives for the proposed activity. To properly defend their social, cultural and environmental interests, CSOs must also have access to all relevant information.

Transparency and accountability are particularly relevant issues for financial institutions, as they can be involved in a wide variety of industries. For decades, international initiatives and standards have been developed to foster the adoption of sustainable environmental, social and governance practices by financial institutions and improve disclosure and accountability. Although public disclosure is not sufficient to ensure that banks adopt and implement robust sustainability policies and processes, stronger regulatory requirements for sustainability reporting can encourage banks to do more, as it makes them publicly accountable for integrating environmental and social issues in their risk management frameworks.

In various countries in Asia (see section 2.5), voluntary national standards have emerged to encourage banks to improve their sustainability practices and reporting. For instance, in Thailand, the Sustainability Banking Guidelines on Responsible Lending, launched by the Thai Bankers' Association in 2019, promote robust disclosure and transparency by requiring banks to publish progress reports on the implementation of the guidelines.<sup>137</sup> In the Philippines, the sustainable finance framework released by the central bank (BSP) also includes specific disclosure requirements for annual reporting.<sup>138</sup>

This theme evaluates whether financial institutions disclose a framework that explains how environmental and social risks are integrated in their financing decisions, whether they provide information about the companies, projects and governments they finance and whether they report on stakeholder consultation and complaint management.

### 3.7.2 Bank scores

Table 11 shows how the banks scored on transparency and accountability, on a scale from 0 to 10.

**TABLE 11: Bank scores: Transparency and accountability (/10)**

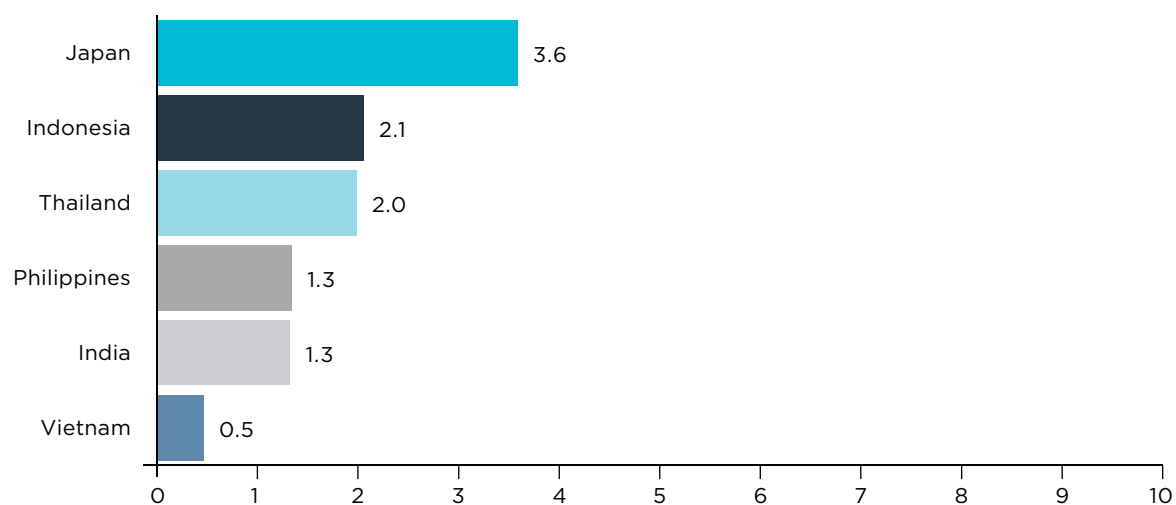
Bank	Country	Score
Rabobank	Netherlands	4.5
Mizuho Financial	Japan	4.4
SMBC Group	Japan	4.4
Sumitomo Mitsui Trust Holdings (SMTH)	Japan	4.4
Mitsubishi UFJ Financial Group (MUFG)	Japan	4.1
Resona Bank	Japan	3.0
Norinchukin Bank	Japan	2.9
DBS	Indonesia	2.8
Siam Commercial Bank (SCB)	Thailand	2.7
TMBThanachart (TTB)	Thailand	2.7
Bank Rakyat Indonesia (Bank BRI)	Indonesia	2.6
Bank Central Asia (BCA)	Indonesia	2.4
Kasikornbank (KBank)	Thailand	2.4
Bangkok Bank	Thailand	2.3
Bank Negara Indonesia (BNI)	Indonesia	2.3
Krung Thai Bank (KTB)	Thailand	2.3
CIMB Niaga	Indonesia	2.2
HDFC Bank	India	2.2
HSBC	Indonesia	2.2
Land Bank of the Philippines (LBP)	Philippines	2.1
YES Bank	India	2.1
Bank of Ayudhya (BAY)	Thailand	2.0
Government Savings Bank (GSB)	Thailand	2.0
TISCO Bank	Thailand	2.0
Japan Post Bank	Japan	1.9
Bank Pembangunan (BJB)	Indonesia	1.9
Kiatnakin Phatra Bank (Kiatnakin Bank)	Thailand	1.9
Bank Mandiri	Indonesia	1.8
Bank of Philippine Islands (BPI)	Philippines	1.8
PermataBank	Indonesia	1.8
Bank for Agriculture and Agricultural Cooperatives (BAAC)	Thailand	1.5
Federal Bank	India	1.5
Government Housing Bank (GHB)	Thailand	1.5
Malayan Banking (Maybank)	Indonesia	1.5
Rizal Commercial Banking Corporation (RCBC)	Philippines	1.4

Bank	Country	Score
State Bank of India	India	1.3
Bank Danamon	Indonesia	1.1
BDO Unibank	Philippines	1.1
IDFC Bank	India	1.1
LienVietPostBank	Vietnam	0.8
Bank of India	India	0.8
Indian Overseas Bank (IOB)	India	0.8
Punjab National Bank (PNB)	India	0.8
Vietnam Prosperity Bank (VPBank)	Vietnam	0.8
Bank for Investment and Development of Vietnam (BIDV)	Vietnam	0.7
Vietnam Export Import Commercial Joint Stock Bank (Eximbank)	Vietnam	0.6
Small and Medium Enterprise Development Bank	Thailand	0.5
Vietnam International Bank (VIB)	Vietnam	0.4
Techcombank	Vietnam	0.3
Vietnam Maritime Commercial Joint Stock Bank (MSB)	Vietnam	0.3
Metropolitan Bank and Trust Company (Metrobank)	Philippines	0.3
Vietnam Bank for Agriculture and Rural Development (Agribank)	Vietnam	0.2
Vietcombank	Vietnam	0.2
Vietnam Joint Stock Commercial Bank for Industry and Trade (Vietinbank)	Vietnam	0.2

### 3.7.3 Average scores per country

Figure 51 provides the average score per country on a scale from 0 to 10 (excluding the Netherlands).

**FIGURE 51: Average score per country: Transparency and accountability (/10)\***



\* Refer to section 3.1 for country coverage and banks, and section 3.2 to understand the methodology and timeframe of data collection

### 3.7.4 Main findings

As shown in Table 11, the scores for transparency and accountability were relatively low for all banks, ranging from 0.2 for three Vietnamese banks to 4.5 for Rabobank.

Among the banks assessed, Rabobank discloses the most comprehensive sustainability framework. The bank's framework covers both its lending and investment activities and describes in detail the environmental and social safeguards applied to cross-cutting issues like human rights, the environment, biodiversity and specific sectors. Rabobank publishes a sustainability report that is audited by a third party. Moreover, Rabobank is transparent about the number of companies it has engaged with on environmental and social topics and the main results, but the names of those companies are not disclosed. The bank also has a complaint mechanism open to any stakeholder or third party with complaints about *"suspected or actual criminal conduct, unethical conduct or other misconduct including human rights violations"*.<sup>139</sup> Rabobank also discloses a clear commitment to fully cooperate in legitimate external processes aimed at addressing and resolving grievances.

Figure 51 shows that Japan had the highest average country score on transparency and accountability at 3.7 while Vietnam had the lowest at 0.5. Four Japanese banks closely followed Rabobank: Mizuho (4.4), SMFG (4.4), SMTH (4.4) and MUFG (4.1). All the other banks scored less than 3.0 out of 10.0.

In Japan, all the banks assessed (except Japan Post) disclose information about their environmental and social risk management framework. In addition, all the banks publish a sustainability report, but none are externally audited. Most of the banks also publish a stewardship report, which includes information on the number of interactions (including dialogue, stakeholder meetings, etc.) on social and environmental topics related to their asset management activities, as well as the topics and results of engagement initiatives. Japanese banks also communicate about their voting record as part of their investment engagement strategy, and the names of companies in which they invest, but this applies only to investment in Japanese-listed shares as required by Japan's Stewardship Code. All the banks have a complaint mechanism that can be used not only by customers but other stakeholders, as well. However, none of the banks appear to have established or participated in effective, operational-level grievance mechanisms that comply with the effectiveness criteria of the UNGPs (see Box below).

In Indonesia, all the banks evaluated disclose a sustainability report, and seven reports out of eleven have been externally audited. All the banks indicated they have adopted an environmental and social risk assessment framework. However, most do not disclose the features of this framework and only provide a summary, which makes it difficult to assess. The two international banks, DBS and HSBC, disclose more information about their ESG risk management framework, as well as policies for sensitive sectors that have been adopted at the group level. Most of the Indonesian banks report that they engage with communities and NGOs on environmental and social topics. However, they do not disclose the names of the organizations nor the topics on which they engage.

In Thailand, 10 of the 12 banks disclose a sustainability report, four of which are externally audited (BAY, SCB, KBank and TMB). Nine banks disclose some information on how they

assess environmental and social risks in their lending activities, which is also a requirement of the Sustainable Banking Guidelines developed by the Thai Bankers' Association. While the Guidelines highlight the importance of engaging with clients to support them in improving their sustainability performance and reducing their negative impacts, information on this was very limited.

In India, all the banks disclose a sustainability report, but only HDFC and YES Bank have their reports externally audited. Three banks (HDFC Bank, IDFC Bank and YES Bank) disclose some information about their environmental and social management framework, including the general rules governing the assessment of sustainability issues in their transactions. However, the scope is limited to projects and does not encompass all lending activities.

In the Philippines, three of the five banks disclose a sustainability report, but only BPI has its report externally audited. RCBC has adopted a Sustainable Finance Framework and a Green Finance Framework (which has been subject to second-party opinion) that guide its issuance of green, social or sustainable debt instruments. However, these frameworks do not apply to all their lending activities and bond issuance. The bank reports it has a Social and Environmental Management System (SEMS) for all its lending relationships/credits, both pipeline and portfolio, but the detailed features of this SEMS are not disclosed. BDO Unibank and Land Bank report on the internal environmental and social policies applied to their lending transactions, but there is little information on the content of these policies. In 2019, BPI established a Green Finance Framework aligned with the Green Bond Principles, Green Loan Principles and the ASEAN Green Bond Standards to increase its financing to renewable energy and energy efficiency projects. However, information on the environmental and social safeguards for all its financing is not available. Three banks in the Philippines report partial information about their consultations with CSOs, and Land Bank has set up a complaint mechanism open to stakeholders wishing to raise environmental and social concerns with funded projects.

In Vietnam, bank transparency and accountability are very limited. While in 2018, only four out of 10 assessed banks disclosed sustainability reports along with their annual reports, in 2019, all 10 banks disclosed a sustainability report. However, BIDV was the only bank to publish a sustainability report, which contained several disclosures from the GRI Standards. VietinBank, in which the Government of Vietnam is the main shareholder, reports that it has implemented the government decision related to the National Action Plan on Green Growth for 2014–2020, as well as the directive of the State Bank Governor on promoting green credit growth and managing environmental and social risks in lending activities. However, information about policies and processes adopted by the bank is not disclosed. VPBank publishes a framework requirement for credit that takes environmental and social impacts into account and specifies how the bank can ensure compliance with such policy by means of the bank's exclusion list.

Significant work remains for these Asian banks to disclose their sustainability policies and how they assess environmental and social risks in their transactions. When banks do disclose this information, it is often limited to assessments of social and environmental risks for large projects, and it is essential that banks expand the scope of their assessments to all their lending and investment activities. Finally, information related to engagement initiatives, consultation with stakeholders and processes to deal with external stakeholders' complaints is limited. None of the 53 banks assessed has set up or participated in a grievance mechanism as required by the UNGPs.

## EFFECTIVENESS CRITERIA FOR NON-JUDICIAL GRIEVANCE MECHANISMS

THE UNGPS DEFINE EIGHT CRITERIA FOR EFFECTIVE NON-JUDICIAL GRIEVANCE MECHANISMS:

### 1 LEGITIMATE

Enabling trust from the stakeholder groups for whose use they are intended, and being accountable for the fair conduct of grievance processes;

### 2 ACCESSIBLE

Being known to all stakeholder groups for whose use they are intended, and providing adequate assistance for those who may face particular barriers to access;

### 3 PREDICTABLE

providing a clear and known procedure with an indicative time frame for each stage, and clarity on the types of process and outcome available and means of monitoring implementation;

### 4 EQUITABLE

Seeking to ensure that aggrieved parties have reasonable access to sources of information, advice and expertise necessary to engage in a grievance process on fair, informed and respectful terms;

### 5 TRANSPARENT

Keeping parties to a grievance informed about its progress, and providing sufficient information about the mechanism's performance to build confidence in its effectiveness and meet any public interest at stake;

### 6 RIGHTS-COMPATIBLE

Ensuring that outcomes and remedies accord with internationally recognized human rights;

### 7 A SOURCE OF CONTINUOUS LEARNING

Drawing on relevant measures to identify lessons for improving the mechanism and preventing future grievances and harms; and

### 8 BASED ON ENGAGEMENT AND DIALOGUE

Consulting the stakeholder groups for whose use they are intended on their design and performance, and focusing on dialogue as the means to address and resolve grievances.

*Source: UN OHCHR (2011), Guiding Principles on Business and Human Rights: Implementing the United Nations "Protect, Respect and Remedy" Framework, pp. 33–34.*

## CHAPTER 4

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# WOMEN'S RIGHTS AND LABOR RIGHTS IN ASIA'S FOOD AND AGRICULTURE SECTOR

Agriculture, forestry and fishing are some of the most important sectors in Asia, providing income and employment for millions of people. However, there are significant violations of women's rights and labor rights in the food and agriculture sector, from exploitative working conditions to land grabbing, discrimination and gender-based violence. This chapter outlines the most prevalent social issues in the sector in FFA and ASEAN countries.

## 4.1 Protecting women’s rights and labor rights

States are responsible for protecting human rights, including women’s rights and labor rights. One of the key legislative tools for countries to protect labor rights is the ILO Declaration on Fundamental Principles and Rights at Work. Ratification of the corresponding Fundamental Conventions, which cover freedom of association, the right to organize and collective bargaining, forced labor, child labor and discrimination, is a key indicator of the status of labor rights protection in a country. Most of the focus countries in this study have ratified several of the Fundamental Conventions, although there are significant gaps, particularly with freedom of association and the right to organize (C087 and C098). Table 12 reports the ratification dates for each country. Only four countries (Cambodia, Indonesia, Philippines and Pakistan) have ratified all eight Fundamental Conventions.<sup>140</sup>

**TABLE 12: Ratification (year) of the eight ILO Fundamental Conventions**

Country	Freedom of Association, Right to Organize and Collective Bargaining		Forced Labor		Child Labor		Discrimination	
	C087	C098	C029	C105	C138	C182	C100	C111
Brunei	-	-	-	-	2011	2008	-	-
Cambodia	1999	1999	1969	1999	1999	2006	1999	1999
India	-	-	1954	2000	2017	2017	1958	1960
Indonesia	1998	1957	1950	1999	1999	2000	1958	1999
Japan	1965	1953	1932	-	2000	2001	1967	-
Laos	-	-	1964	-	2005	2005	2008	2008
Malaysia	-	1961	1957	-	1997	2000	1997	-
Myanmar	1955	-	1995	-	2020	2013	-	-
Pakistan	1951	1952	1957	1960	2006	2001	2001	1961
Philippines	1953	1953	2005	1960	1998	2000	1953	1960
Singapore	-	1965	1965	-	2005	2001	2002	-
Thailand	-	-	1969	1969	2004	2001	1999	2017
Vietnam	-	2019	2007	2020	2003	2000	1997	1997

Source: ILO (n.d.), “Ratifications of Fundamental Conventions by country”, [https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:1001::NO:1001:P1001\\_DISPLAY\\_BY,P1001\\_CONVENTION\\_TYPE\\_CODE:1,F](https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:1001::NO:1001:P1001_DISPLAY_BY,P1001_CONVENTION_TYPE_CODE:1,F).

The ILO has also introduced agriculture-specific Conventions to protect the rights of agricultural workers. This is due to the size of the labor force – half the world’s workers are in the agriculture sector – and the unique challenges associated with the sector, such as low wages and hazardous working conditions.<sup>141</sup> However, these Conventions have not been widely ratified in Asia. None of the focus countries have ratified the Labor Inspection (Agriculture) Convention (C129) or the Safety and Health in Agriculture Convention (C184). Only India, Singapore, Pakistan and two Malaysian states have ratified the Right of Association (Agriculture) Convention (C011), and only the Philippines has ratified the Plantations Convention (C110).<sup>142</sup>

Ratification of ILO Conventions is not a perfect indicator of labor rights protections, as some countries may offer protections despite not having ratified a certain Convention, while others may have significant gaps in the application of ILO Conventions in national laws or in practice. Although the ILO has developed supervisory systems and complaint mechanisms to monitor the implementation of the Conventions in law and practice and promote proper implementation of the ILO Fundamental Conventions on the national level, gaps persist. These gaps will be highlighted in this chapter.<sup>143</sup>

Similarly, although most countries have implemented laws against gender discrimination and formally recognize women and men as equal, in practice, there are significant gender disparities across the region. The World Economic Forum (WEF) Global Gender Gap Index benchmarks countries across four dimensions of gender equality:<sup>144</sup>

- ⊙ Economic participation and opportunity;
- ⊙ Educational attainment;
- ⊙ Health and survival; and
- ⊙ Political empowerment.

Results from the 2021 Index show that Asian countries have made progress in closing the gender gap, but women continue to face inequalities in employment, education, health and politics. Although Cambodia, Laos and the Philippines are among the top 50 countries in the world on gender equality, other countries in the region, including Brunei, India, Japan, Malaysia, Myanmar and Pakistan, are among the 50 lowest scoring countries globally (see Table 13). Compared to 2020, several countries have lost ground on gender equality. According to the WEF, this may be explained in part by the COVID-19 pandemic, which has had a disproportionate impact on economic sectors where women are overrepresented, such as service industries and the informal economy. In addition, girls have suffered most from the pandemic and corresponding school closures, which put them at increased risk of child labor and child marriage.<sup>145</sup>

**TABLE 13: Global Gender Gap Index in FFA and ASEAN countries**

Country	Score (0-1)	Global ranking (1-156)	Score change since 2020
Brunei	0.678	111	-0.009
Cambodia	0.729	46	-0.010
India	0.625	140	-0.042
Indonesia	0.688	101	-0.013
Japan	0.656	120	+0.003
Laos	0.750	36	+0.019
Malaysia	0.676	112	-0.001
Myanmar	0.681	109	+0.016
Pakistan	0.556	153	-0.007
Philippines	0.784	17	+0.003
Singapore	0.727	54	+0.004
Thailand	0.710	79	+0.003
Vietnam	0.701	87	+0.002

Source: World Economic Forum (2021), *Global Gender Gap Report 2021*.

To understand the inequalities faced by women and other workers in the agriculture, fishing and forestry sectors, the following sections discuss some of the key social issues in food and agriculture supply chains, including:

- ⊙ Modern slavery, forced labor and human trafficking;
- ⊙ Child labor;
- ⊙ Informal and casual work;
- ⊙ Freedom of association and the right to organize;
- ⊙ Living incomes and working hours;
- ⊙ Occupational health and safety;
- ⊙ Discrimination and gender-based violence;
- ⊙ Land rights and livelihoods; and
- ⊙ Climate change.

For each of these topics, we pay particular attention to gendered impacts, with a focus on women and girls. We acknowledge that different forms of discrimination often intersect and aim to consider the disproportionate impacts on women and girls due to their race and ethnicity, religion, migrant status, sexual orientation and gender identity, literacy levels, disability, marital status and other sources of marginalization.

## 4.2 Modern slavery, forced labor and human trafficking

The most severe form of labor exploitation is modern slavery, which is an umbrella term for the severe exploitation of people for personal or commercial gain, including forced labor, debt bondage and forced marriage. Modern slavery is characterized by situations of exploitation where a person cannot leave or refuse because of threats, violence, coercion, deception and/or abuse of power. Modern slavery is most prevalent in Asia and the Pacific where 7.6 people in every 1,000 are affected.<sup>146</sup> According to the Global Slavery Index, nearly 25 million people in Asia and the Pacific are in modern slavery, with particularly alarming figures in Brunei, Myanmar, Cambodia and Pakistan (see Table 14).

**TABLE 14: Modern slavery in FFA and ASEAN countries (2017)**

Country	Number of victims per 1,000 population	Total number of victims
Brunei	10.9	5,000
Cambodia	16.8	261,000
India	6.1	7,989,000
Indonesia	4.7	1,220,000
Japan	0.3	37,000
Laos	9.4	62,000
Malaysia	6.9	212,000
Myanmar	11.0	575,000
Pakistan	16.8	3,186,000
Philippines	7.7	784,000
Singapore	3.4	19,000
Thailand	8.9	610,000
Vietnam	4.5	421,000

Source: *Global Slavery Index (2018), The Global Slavery Index 2018, Walk Free Foundation, pp. 86–88.*

The agriculture and fishing industries have some of the highest rates of forced labor and modern slavery. Japan and Thailand are among the seven countries with the highest risk of modern slavery in the fishing industry, followed closely by India, Indonesia, Malaysia, Philippines and Vietnam.<sup>147</sup>

Most forced labor victims in Asia (55%) are in debt bondage, a situation in which a person is forced to work to repay a debt and is unable to leave for this reason.<sup>148</sup> Debt bondage often occurs in agriculture when workers are recruited through recruitment agencies that demand fees for job placement and providing additional services, such as administration, housing and transportation. To pay for these services, workers are forced to hand over part of their wage until the debt is repaid. Such debt bondage often accompanies unfair recruitment processes. When recruited for a job, workers are often misinformed about the working conditions, wages and tasks. Because wages are often withheld for extended periods, particularly for seasonal work that only pays out wages at the end of the harvest, workers often have no choice but to accept these deceptive conditions for weeks, or even months, until debts to the recruiter are repaid and they receive their wages. In some cases, recruitment agencies or plantation managers confiscate workers' documents when they start the job, such as national registration cards or identity documents, to prevent workers from terminating the work contract early.<sup>149</sup>

Migrant workers are particularly vulnerable to these forms of human trafficking and forced labor. According to a survey by the Mekong Migration Network, more than half of migrant agricultural workers in Thailand are undocumented, mostly due to the high fees associated with official administration and documentation, and subminimum wages do not allow them to cover these prohibitive costs. Being undocumented makes migrant workers more dependent on their employer than local workers, increases the risk of exploitative labor practices and hinders their ability to access social security or legal support.<sup>150</sup>

In addition, migrant workers are often recruited through third-party recruiters who, in many cases, also facilitate travel and housing and pay wages on behalf of the plantation. This dependence on an intermediary makes it harder for migrant workers to address unfair or forced labor practices and makes them more vulnerable to exploitation. The COVID-19 pandemic has exacerbated these vulnerabilities, as many migrant workers lost their jobs but were unable to return to their home countries due to border closures. Instead, workers were forced to live in cramped housing and dangerous working conditions that heightened the risk of being exposed to the virus.<sup>151</sup> Migrant workers have also faced increased discrimination, social exclusion and xenophobia, including verbal and physical abuse, intimidation and violence due to strong anti-migrant sentiments that portrayed them as a health risk during the pandemic.<sup>152</sup>

### 4.3 Child labor

After years of progress, the economic downturn and school closures of the COVID-19 pandemic threaten to reverse positive trends and push millions of children into exploitative labor and child labor.<sup>153</sup> Since 2008, the prevalence of child labor in Asia has been halved, but is still rampant with 48.7 million children, or 5.6% of children between the ages of five and 17, engaged in child labor in 2020. More than half of these working children are younger than 11 years old.<sup>154</sup>

Most working children in East and Southeast Asia are employed in agriculture (57%), usually to support the labor of relatives on family farms or plantations (61.6%). However, nearly 30%

of children are employed directly or as own-account workers (9.4%). Although most children perform these activities in addition to education, 37.2% of working children between five and 14 in East and Southeast Asia do not attend school.<sup>155</sup>

Child labor, particularly in the agriculture sector, is a key issue in the focus countries of this study, as evidenced in the data reported in Table 15. Brunei and Malaysia do not conduct a national child labor survey, and limited data is available on Laos and Vietnam. However, evidence collected by numerous NGOs and multilateral organizations suggest that child labor is a prevalent issue in the agriculture sectors of these countries, as it is in other neighboring countries in Southeast Asia. Only in Singapore and Japan has child labor been nearly eradicated.<sup>156</sup>

**TABLE 15: Child labor in the agriculture sector in FFA and ASEAN countries (2018)**

Country	Number of working children	Proportion of children	Share of working children in agriculture	Sectors
Cambodia	267,924	8.4%	78.4%	Fishing and seafood processing, tobacco, cassava, rubber, rice, sugarcane, timber, salt, bovines
India	3,253,202	1.4%	56.4%	Cottonseed, rice, sugarcane, tobacco, tea, cashew nuts, fishing and seafood processing
Indonesia	816,363	3.7%	61.6%	Palm oil, tobacco, rubber, fishing and seafood processing
Laos	-	26.3%*	-	
Myanmar	312,151	3.3%	58.3%	Rubber, sugarcane, beans, rice, nuts, bamboo, fishing and seafood processing, forestry, teak
Pakistan	2,261,704	9.8%	69.4%	Cotton, wheat, sugarcane, fishing
Philippines	1,549,677	7.5%	54.1%	Sugarcane, bananas, coconuts, corn, rice, rubber, tobacco, hog farming, palm oil, fishing
Thailand	1,302,267	13.0%	-	Fishing and seafood processing, sugarcane, rubber, pineapples
Vietnam	-	12.1%**	-	

Source: U.S. Department of Labor (2020), 2019 Findings on the Worst Forms of Child Labour.

\* Laos data from 2017. \*\* Vietnam data from 2014.

Working children in FFA and ASEAN countries cultivate and process foods that are part of global supply chains, such as palm oil, cotton, tobacco, nuts and tea, as well as products destined primarily for domestic or regional consumption. Often this work is hazardous, as children are involved in dangerous tasks such as deep-sea fishing, applying pesticides on sugarcane and palm oil plantations without protective equipment and strenuous work in the heat without adequate breaks or access to water and shade.<sup>157</sup>

#### 4.4 Informal and casual work

The agriculture sector is characterized by high rates of informality: nearly all agricultural employment (94.7%) in the Asia-Pacific region is informal and reaches 99.3% in South Asia. For informal workers, employment is precarious, and they tend to receive lower wages in more exploitative working conditions than workers in formal sectors.<sup>158</sup>

## INFORMAL ECONOMY

The informal economy is an umbrella term for all economic activities by workers and economic units that are, in law or in practice, not covered or insufficiently covered by formal arrangements. This includes own-account workers and non-registered enterprises, such as household farms, but also workers informally employed by (registered and non-registered) companies. Informal employment is defined as remunerative work that is not registered, regulated or protected by legal or regulatory frameworks.

Informal workers have no secure employment contracts and often cannot access benefits, social protections or legal representation. In many countries, informal workers, and agricultural workers in general, are excluded from labor law protections and cannot claim social security services, such as unemployment benefits, health care or pensions.

Because informal workers are often not protected by law, their employment is extremely precarious. Employers can easily dismiss workers on wrongful grounds, pay less than minimum wage, ban workers from collective bargaining or joining a trade union and disregard their health and safety at work.

Source: ILO (n.d.), "Informal economy workers", [https://www.ilo.org/global/topics/wages/minimum-wages/beneficiaries/WCMS\\_436492/lang--en/index.htm](https://www.ilo.org/global/topics/wages/minimum-wages/beneficiaries/WCMS_436492/lang--en/index.htm), viewed in August 2021.

Informal workers may be permanently employed, but often work casually through daily wage labor or seasonally, such as during harvest season. Even when casual and seasonal workers have formal contracts, employers often dictate the terms and conditions of employment in disadvantageous ways, whether within or outside legal limits. Casual workers are often not paid an hourly wage, but a fixed daily rate or piece rate with a minimum threshold based on the amount of work, such as the number of fruit bunches they harvest. However, these thresholds are often set so high that workers need to work up to 12 hours a day to meet the targets or require assistance from their children. When workers do not meet the targets, they may face fines, wage deductions or dismissal from work altogether.<sup>159</sup>

Women are vastly overrepresented among informal and casual workers in agriculture and experience the most exploitative working conditions. Compared to their male counterparts, women are more often employed as day laborers for the lowest paying jobs, such as pruning, maintenance and spraying fertilizers and pesticides, with little to no prospects of permanent employment or promotions.<sup>160</sup> For example, female workers on palm oil plantations in Indonesia report that despite having worked on the same plantation for a decade, the plantation managers refuse to offer them permanent employment contracts. Instead, plantations keep the number of working days for women below the legal threshold and do not pay overtime even though this is a near-daily occurrence.<sup>161</sup>

#### **4.5 Freedom of association and the right to organize**

The right to organize, to collective bargaining and freedom of association are fundamental to the functioning of labor markets because they ensure that workers' voices and demands are heard. Trade unions, workers associations and employers' organizations play key roles in the functioning of an open and democratic society.<sup>162</sup>

However, these fundamental rights are not adequately protected in many countries, and agricultural and informal workers, as well as migrant workers, are often excluded from labor rights protections. For example, in Cambodia, informal workers can only form associations, which grant fewer protections than trade unions. Cambodian law also restricts workers who are illiterate from union leadership.<sup>163</sup> In Thailand, migrant workers without Thai citizenship cannot form unions or serve as union officials.<sup>164</sup> In Laos, the law does not provide for the right of workers to form and join worker organizations independent of the ruling party-affiliated Lao Federation of Trade Unions (LFTU), and does not provide adequate protections against anti-union discrimination.<sup>165</sup> In the Philippines, workers without employment contracts and migrant workers are barred from organizing unions.<sup>166</sup>

Even where rights to organize, collective bargaining and freedom of association are protected by law, NGOs and labor rights organizations point to significant restrictions and administrative barriers that hinder union activity, as well as inconsistent application of laws and a failure to enforce regulation. For example, Indian trade unions point out that state and local authorities sometimes impede the registration of unions and use their power to declare strikes illegal.<sup>167</sup> In the Philippines, employers have circumvented the legal right to organize by hiring employees on short-term contracts and favoring migrant workers to minimize unionization.<sup>168</sup>

As a result of these weak protections, anti-union discrimination and intimidation are widespread across the region. Some of the FFA and ASEAN countries are among the worst countries in the world for workers, according to the ITUC Global Rights Index 2021, which rates countries from 1 (sporadic violations of rights) to 5 (no guarantee of rights) (see Table 16). Myanmar and the Philippines ranked among the top 10 worst countries for working people due to violent attacks on workers by the police and corporate security forces, arbitrary arrests, assault and murder, denial of the right to strike and organize, union busting and repressive labor regimes. Cambodia, India, Indonesia, Laos, Myanmar, Malaysia, Philippines, Pakistan and Thailand all received the highest rating, which indicates that the rights of workers are not guaranteed and that violations of human and labor rights are frequent and widespread. In addition, workers face systemic violations (rating 4) in Vietnam. Only in Japan and Singapore are labor rights more adequately protected, although repeated violations still occur (rating 2).<sup>169</sup>

**TABLE 16: ITUC Global Rights Index 2021 ratings for ASEAN and FFA countries**

ITUC rating		Countries
5	NO GUARANTEE OF RIGHTS	Cambodia
		India
		Indonesia
		Laos
		Myanmar
		Malaysia
		Philippines
		Pakistan
		Thailand
4	SYSTEMIC VIOLATIONS OF RIGHTS	Vietnam
2	REPEATED VIOLATIONS OF RIGHTS	Japan
		Singapore
NO DATA		Brunei

Source: International Trade Union Confederation (2021), 2021 ITUC Global Rights Index: The World's Worst Countries for Workers, p. 14.

According to the ITUC, the COVID-19 pandemic has led to more widespread labor rights abuses. Governments and employers have used the pandemic to dismiss workers who raised concerns about the risk of the virus spreading in workplaces, violated collective bargaining rights and increased surveillance of workers, undermining their right to privacy. Lockdowns and the pandemic were also used to indefinitely postpone collective bargaining negotiations, as in Cambodia, and to dismiss workers for union activities as part of mass layoffs. In addition, union members and participants in strikes faced disproportionate violence and criminalization for violating lockdown rules. For example, in the Philippines, five workers were arrested by police during trade union activities for alleged violation of quarantine guidelines.<sup>170</sup>

#### 4.6 Living wages and working hours

Small-scale farmers and agricultural workers face structural poverty due to low wages in the sector. Given the high rate of informal employment and inadequate protection of agricultural workers by labor laws, many workers receive less than minimum wage and, often, far below the living wage required to sustain their families and live a life of dignity. As a result of the low incomes associated with agricultural production, four out of five people who live below the international poverty line live in rural areas.<sup>171</sup>

## LIVING WAGE AND INCOME

The low incomes and wages earned in the agriculture sector in Asia are often insufficient to sustain a decent standard of living. To understand this gap, the concepts of living income and living wage describe how much a household or worker should earn to afford a decent life for themselves and their household.

The Global Living Wage Coalition define a living wage as the remuneration received for a standard work week by a worker in a particular place sufficient to afford a decent standard of living for the worker and their family. Like a living wage, a living income applies to own-account income earners, such as self-employed farmers, and describes the net annual income required for a household in a particular place to afford a decent standard of living for all members of that household.

Living incomes cover food, water, housing, education, health care, transportation, clothing and other essential needs, and are adjusted for the local cost of living. It is important to note that although the living income describes a threshold for a decent life, this still only covers the bare minimum a household needs to survive and realise their basic human rights.

*Source: Global Living Wage Coalition (n.d.), "What is a Living Wage?", <https://www.globallivingwage.org/about/what-is-a-living-wage/>.*

Agricultural sectors in which production is decentralized and primarily for local and regional consumption, such as rice, maize, grains, fruits and vegetables and fish, tend to be dominated by small-scale farmers and fishers. In these sectors, women play a more important role in managing and generating income from production and selling food in markets. For example, in Indonesia, more than 70% of labor in upland rice production is performed by women. However, earning an adequate living is difficult for female smallholders due to low prices. On average, a small-scale rice farm yields \$2 to \$6 per day, well below the living wage, leaving women to struggle to feed themselves and their families. In Vietnam, rice farmers only earn around 26% of what is necessary to fulfil basic needs and, in Pakistan, more than eight out of 10 female agricultural workers and farmers growing rice face severe food insecurity.<sup>172</sup>

Agricultural sectors in which cash crops are grown for regional and international export, such as palm oil, tropical fruits, tea, rubber and sugarcane, tend to be centralized on large-scale plantations owned by agribusinesses that may own multiple plantations or production facilities. On these plantations, agricultural workers are often paid below the local living wage, and often below the national minimum wage, which is often not enforced or respected. The wages of agricultural workers are also extremely insecure. Daily wage laborers and casual workers often do not know when or how long they will be employed, while informal workers are at perpetual risk of losing their employment due to a lack of formal contracts and social protections. Permanent workers face frequent, and often unexpected, wage deductions, as do seasonal workers who often wait months to get paid less than what they are owed.<sup>173</sup>

## DISCRIMINATION AGAINST WOMEN IN BANANA PLANTATIONS IN PHILIPPINES

Women play crucial roles in the planting, harvesting, packing and processing of bananas, as well as selling them in local markets for domestic consumption. In Philippines, women are generally hired to help with planting and applying pesticides in the field, as well as sorting and handling the fruit in packing houses during harvest season. Women have longer working days and lower wages than men, in addition to a higher amount of unpaid care work at home.

A 2018 study found that women farmers in Philippines earn on average PHP 108 (\$2.15) a day less than their male counterparts. In addition, the study found that women working on banana plantations face gender-based violence and sexual violence at work, in their communities and at home; health issues from strenuous work conditions and the use of dangerous agrochemicals; and lack of representation in trade unions and workers' organizations. Because they receive less formal education and workplace training, and experience discrimination in the workplace, women are also less likely to be promoted to better, higher paid jobs.

*Sources: Cooper, A. (2015), Women in the Banana Export Industry: Global Overview, BananaLink; FAO (2017), Women's Employment in the Banana Industry, World Banana Forum; Department of Agriculture Philippines (2018, March 16), Women farmers work more, paid less, <https://www.philrice.gov.ph/women-farmers-work-paid-less/>; Lingao, A. (2020), Women farm, too: Unearthing women's voices in agriculture, Oxfam Asia, <https://asia.oxfam.org/latest/blogs/women-farm-too-unearthing-women%E2%80%99s-voices-agriculture>.*

### 4.7 Occupational health and safety

Physically demanding work, long working days with few breaks and the use of sharp, heavy tools and dangerous agrochemicals, make agriculture a dangerous sector in terms of occupational health and safety (OHS). Prolonged exposure to heat, direct sunlight and exhaustion also put workers and farmers at risk of heat exhaustion, sun damage and skin cancer, dehydration, respiratory problems, damage to joints and muscles and chronic diseases. The risks associated with work accidents and injuries are particularly severe for informal and casual workers, who are often barely protected by law and social security when injured. Because informal and casual workers are usually not documented in a company's social security database or national social security schemes, these workers need to cover their own health care costs when they fall sick or suffer work-related injuries. Similarly, self-employed farmers, foresters and fishers are usually not covered by OHS protections and benefits unless they take out private insurance, which is prohibitively expensive.<sup>174</sup>

Casual and own-account workers on plantations are usually expected to provide their own personal protective equipment (PPE) and tools or receive wage deductions when the PPE is provided by the employer. In practice, agricultural workers often perform dangerous tasks without any PPE, exposing them to injuries and occupational diseases. For example, women and children are often hired on plantations to apply pesticides and herbicides to crops because this is considered "light" and "low-skilled" work, but these dangerous agrochemicals can cause significant health problems, including respiratory diseases, skin issues and damage to reproductive organs, which is particularly dangerous for pregnant women and children. According to Verité research on banana plantations in Myanmar, workers report that multiple female plantation workers have had miscarriages after working with pesticides, and various

workers reported experiencing dizziness, difficulty breathing, vomiting, bleeding and fainting. In some extreme cases, community members and workers were hospitalized, and several people died after suspected exposure to pesticides, including young children.<sup>175</sup>

## 4.8 Discrimination and gender-based violence

Women, as well as Indigenous peoples, migrant workers, ethnic or religious minorities and other members of marginalized populations, are exposed to discrimination in the workplace. One of the most predominant forms of (gender-based) discrimination is the “feminization” of certain tasks, such as weeding, applying fertilizers and pesticides, sowing and harvesting vulnerable crops. Women are perceived as more suitable for these tasks, but because this work is perceived as requiring less skill and physical strength, this is used to justify severe wage discrimination. As a result, women not only receive lower pay, but also have worse and more dangerous working conditions, more insecure employment arrangements and fewer protections. Low wages also impact women’s access to food and nutrition, as they often require additional sources of income to feed their families on top of their significant unpaid workload associated with childcare and housework.<sup>176</sup>

### TRIGGER WARNING: SEXUAL VIOLENCE

Please be aware that the following paragraphs contain references to gender-based and sexual violence. To skip this section, continue to section 4.9 Land rights and livelihoods.

Women and girls working on, or living in the vicinity of, agribusinesses are exposed to gender-based and sexual violence in the fields, plantations, greenhouses and packing areas. Although global data is lacking, case studies reveal that rural women around the world face extremely high rates of sexual harassment and violence, which includes derogatory comments, spreading false rumors, verbal abuse, excluding and shaming menstruating women, forcing women to dress and behave a certain way, intimidation, threats of violence, assault and molestation, intimidation, rape and murder.<sup>177</sup>

The social and cultural dynamics of farm work, as well as power imbalances between men and women and between employers and workers, create unique obstacles for women to report and seek remedies for sexual violence. Often, the violence is perpetuated by men who hold more power, for example, supervisors and managers or men with high social or cultural status in the workplace or community, making it more difficult for victims to seek help. Victims are often specifically targeted because of their race, class or socio-economic status, sexual orientation, disability or any combination of these factors, putting them in a situation of heightened vulnerability. In addition, women who have short-term contracts or work on an informal basis, as well as migrant workers, are at increased risk because they are less able and less likely to report the violence to their employer out of fear of retaliation and dismissal.<sup>178</sup>

In 2020, research by Associated Press News found that physical and sexual abuse seems to be a growing problem on and around palm oil plantations in Malaysia and Indonesia. According to workers who were interviewed, the perpetrators are mainly male colleagues

and plantation supervisors, and victims are mainly women and girls as young as 12 years old. The threat of retaliation and fear of not being believed keeps victims from reporting the violence. When victims do press charges to local police, they are often not filed or dropped due to a lack of evidence. This further discourages victims from seeking help and contributes to a sense of impunity among perpetrators.<sup>179</sup>

## WOMEN IN INDONESIA'S PALM OIL SECTOR

Women play a central role in Indonesia's palm oil production as workers, smallholder producers and community members. Yet, the dynamics of the sector render women practically invisible.

Compared to their male counterparts, women are much more likely to be hired informally, casually or as so-called "shadow workers" who help family members reach harvest targets without being formally employed themselves. Because women in these employment arrangements have little to no legal protection and are often hired to perform tasks generally perceived as low skilled, their wages are often significantly lower than those of men and they often do not enjoy job security, employment benefits or social security.

The meager income women earn at plantations is generally insufficient to sustain their families and, as a result, women take on additional work. Their unpaid workload also increases due to difficulties accessing drinking water, food and medicine from the rivers and forests that have been polluted and destroyed by the palm oil plantations. Their health is also negatively impacted by their jobs. Applying fertilizer and pesticides to oil palm trees is typically the role of women workers, and they are generally not provided with PPE. This is particularly dangerous for pregnant or breastfeeding women.

Even women who do not work on palm oil plantations experience negative impacts from the industry. The palm oil sector in Indonesia is widely associated with land grabbing, which results in communities losing the land they depend on for subsistence. This has a disproportionate impact on women, especially Indigenous women, who are often not consulted and included in decision-making on the sale of land and do not share in the compensation benefits or sales proceeds.

In 2020, research by Associated Press News found that physical and sexual abuse is a growing problem on and around palm oil plantations in Indonesia. According to workers who were interviewed, women are at incredibly high risk of sexual violence because they are often outnumbered on plantations, and the dark and remote fields make it dangerous for women workers and community members to move around safely.

A recent study by ActionAid showed that the lack of gender sensitivity among palm oil importers in Europe renders women in the industry invisible and unheard, allowing women's rights abuses in the palm oil sector to continue largely unchecked.

*Sources: Mason, M. and R. McDowell (2020, November 18), "Rape, abuses in palm oil fields linked to top beauty brands", AP News, <https://apnews.com/article/palm-oil-abuse-investigation-cosmetics-2a209d60c42bf0e8fcc6f8ea6daa11c7>; Human Rights Watch (2019), "When We Lost the Forest, We Lost Everything", *Palm Oil Plantations and Rights Violations in Indonesia*, New York, USA: Human Rights Watch; ActionAid (2020, October), *Women's Rights Violations in Dutch Palm Oil Supply Chains: The Case of Guatemala*, <https://actionaid.nl/2020/10/23/womens-rights-violations-in-dutch-palm-oil-supply-chains-the-case-of-guatemala/>.*

## 4.9 Land rights and livelihoods

The rapid expansion of cash crops – agricultural crops cultivated for profit rather than local consumption – has severely affected the ability of rural women and men to access the land, forests and water that rural women and men depend on for survival. In Indonesia, there are nearly two land-related conflicts every day due to the rapid expansion of palm oil plantations. According to Human Rights Watch, palm oil companies in Indonesia structurally fail to gain free, prior and informed consent (FPIC) from communities, which results in sudden and unexpected land grabs and bulldozing of forests. In most cases, communities report that they have not received fair and just compensation for the lost land and forests. Women are disproportionately impacted, especially Indigenous women, who are often not consulted, do not share in the compensation benefits and see their unpaid workloads increase. For example, palm oil plantations have polluted rivers in Indonesia due to the use of chemical pesticides and fertilizers, and soil erosion and runoff have killed off local fish stocks. While men moved upstream to the Kumba and Semunying Rivers to fish, women often do not have access to boats and lose their ability to rely on fishing altogether.<sup>180</sup>

In addition, women are often not hired on palm oil plantations or only for the lowest-paying jobs. In some cases, lack of access to employment and subsistence forces women and their families to migrate to another area of the country or to other countries to seek alternative employment, where they are yet again exposed to exploitative labor conditions, gender-based violence and poverty.<sup>181</sup>

## 4.10 Climate change

Climate change and global warming are posing significant threats to Asia's agriculture sector and rural communities. Agricultural production is significantly threatened by changes in rainfall patterns, shortages of irrigation water, extreme weather events and global warming.<sup>182</sup> These changes are already occurring, and the impacts will only accelerate.

According to the Global Climate Risk Index by GermanWatch, which analyses and ranks countries already experiencing the impacts of climate-related extreme weather events, several Asian countries are some of the most severely impacted. Between 2000 and 2019, Myanmar, Philippines, Pakistan and Thailand were among the top 10 countries worldwide most affected by damages, GDP losses and fatalities caused by cyclones, floods, mudslides and other extreme weather events caused by heavy rainfall and heatwaves (see Table 17).

**TABLE 17: Global Climate Risk Index in FFA and ASEAN countries (2019)**

Country	Climate Risk Index Global Ranking
Myanmar	2
Philippines	4
Pakistan	8
Thailand	9
Vietnam	13
Cambodia	14
India	20
Laos	52
Japan	57
Indonesia	72
Malaysia	116
Brunei	176
Singapore	179

Source: Eckstein, D., V. Künzel and L. Schäfer (2021), *Global Climate Risk Index 2021. Who Suffers most from Extreme Weather Events?*, GermanWatch.

Extreme weather events and global warming have severe impacts on crop yields. For example, maize yields will decline up to 6.4% by 2030, and heat stress coupled with droughts will significantly hinder the irrigation of water-intensive crops, such as rice and wheat. With its impact on agricultural production and natural resources, climate change will create greater fluctuations in crop production, food supplies and market prices. It will also aggravate food insecurity and poverty in South Asian countries, which already affects the livelihoods of millions of people in the region, particularly in rural areas.<sup>183</sup>

The food and agriculture sector not only suffers the consequences of climate change; it is also a major contributor to global warming and environmental degradation itself. According to the World Resources Institute (WRI), emissions from agricultural production accounted for 11% of global greenhouse gas (GHG) emissions in 2019, an increase of 14% since 2000.<sup>184</sup> In the past 50 years, in response to growing demand for food, agricultural productivity has intensified and unsustainable production systems have been employed, resulting in dramatic environmental damage and changes to how ecosystems function. In Asia, the intensification and industrialization of agriculture has contributed to decreased soil productivity, depleted groundwater and freshwater, deforestation and forest degradation, increased pest invasions and GHG emissions. Among the biggest agricultural contributors to climate change in Asia are land clearing in the forestry sector, water and soil degradation and pollution by industrial cash crops such as palm oil, water-intensive sectors such as rice, methane emissions by cattle and industrial fishing that impacts aquatic ecosystems.<sup>185</sup>

Smallholder farmers and impoverished communities that have contributed the least to climate change will bear the brunt of the negative impacts. Rural communities across Asia will face significant risks to their food security and livelihoods while being least able to adapt due to a lack of access to finance and climate-adaptation technologies.<sup>186</sup>

Women are more vulnerable to the impacts of climate change since they represent the majority of the world's poor and are more dependent on threatened natural resources. Women also have less access than men to resources such as land, credit, agricultural inputs, decision-making structures, technology, training and extension services that would enhance their capacity to adapt to climate change. Also, women's childcare responsibilities often prevent them from migrating or seeking refuge when climate disasters strike, which will make women more vulnerable to climate change-related impacts in the future.<sup>187</sup>

The importance of the food and agriculture sector, both in terms of its contribution to climate change and the impacts it will suffer, makes it imperative for the sector to adopt climate-resilient practices while supporting smallholder farmers, rural communities and women to adapt and safeguard their livelihoods and food security.

## CHAPTER 5

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# CONCLUSIONS AND RECOMMENDATIONS

While the food and agriculture sectors are critical for ASEAN economies, companies active in these sectors are often associated with serious social issues, including violations of women's rights and labor rights. Based on the conclusions of this report (section 5.1), FFA and GRAISEA offer recommendations (section 5.2) for financial institutions, ASEAN and Asian governments to accelerate responsible financing and investment in the region's food and agriculture sector.

## 5.1 Conclusions

Agriculture is a vital sector for countries in South and Southeast Asia, and its importance to Asian economies, livelihoods and food security cannot be understated. However, the food and agriculture sector in Asia is mired in social challenges. Despite government regulations on labor rights and gender equality, exploitative conditions are common, from modern slavery and forced labor to child labor, informal and precarious work, violations of freedom of association and the right to organize, low wages, dangerous working conditions and gender-based discrimination. Communities that live in the vicinity of large-scale agriculture and fishing operations also experience land grabbing, deforestation, water and air pollution and degradation of soil and natural ecosystems. These social issues are exacerbated by climate change and the COVID-19 pandemic, which are reversing important gains in food security and poverty reduction and threatening the livelihoods of rural communities.

Women, as well as other marginalized groups, such as Indigenous peoples, migrant workers, persons with disabilities and ethnic and religious minorities, are disproportionately impacted by the irresponsible business conduct of agribusinesses. Not only are women most severely impacted by discrimination and gender-based and sexual violence, but they also receive lower wages, experience more insecure working conditions and severe health impacts and carry the burden of unpaid care work. Despite this, the rights of women are often overlooked by companies, financial institutions and governments.

These social issues do not exist in isolation. Rather, the disregard for the rights of women and workers is a structural and persistent issue facilitated by inadequate government regulation and enforcement, the failure of companies to respect human rights and the negligence of financial institutions to ensure the businesses they fund are operating responsibly.

Over the past two decades, pressure has been mounting on financial institutions to integrate environmental and social risks in their policies and processes. This has led to the introduction of international, regional and national standards and regulations for sustainable financing and ESG practices. In ASEAN and FFA countries, national sustainability frameworks have been developed by regulators or banking associations to encourage financial institutions to embed environmental and social risks in their strategies and risk management systems. ASEAN has been active in promoting sustainable investments in the region by developing specific guidelines for the food, agriculture and forestry sectors. The ASEAN RAI Guidelines provide a framework for public sector, regional and foreign investors and other actors to support responsible and sustainable agricultural investment and value chains in the region.

Since most of these frameworks are voluntary and lack strong enforcement mechanisms, they are unable to have a structural influence on how financial institutions conduct their business. Regulators also tend to give more attention to environmental and climate issues than social issues.

Our financial research found that banks both within and outside the ASEAN region play an essential role in financing the agribusiness sector in FFA and ASEAN countries (see chapter 1). By providing credit and investments, financial institutions can exercise significant influence over companies' practices and policies, but when they finance agribusinesses without paying attention to potential or actual adverse impacts on people and local communities, they can

facilitate violations of human rights, labor rights and women's rights, and are exposed to significant risks that undermine their business.

Policy assessments of 54 financial institutions active in financing the agriculture sector in ASEAN and FFA countries showed that, overall, social issues are very poorly integrated in sustainability policies. The banks we assessed scored, on average, less than 2.0 out of 10.0 on human rights, labor rights, gender equality and transparency and accountability.

These scores are evidence that financial institutions are not upholding crucial principles of responsible financing, and lack strong policies on human rights, women's rights and labor rights. This, in turn, is having an impact on how companies conduct their operations. Field research conducted by FFA coalitions on banana plantations in the Philippines and palm oil plantations in Indonesia revealed ongoing human rights and labor rights violations that are pushing workers, especially women, and local communities into poverty (see Annex).

This means there is a huge gap between banks' public policies and management frameworks and what is expected of them by international, regional and national sustainability standards.

## 5.2 Recommendations of FFA and GRAISEA

### 5.2.1 Recommendations for financial institutions

The following recommendations are for financial institutions providing credit to, or investing in, Asia's food and agriculture sector. These recommendations are aimed at accelerating responsible financing and investment in the sector:

- **Commit, in policy and in practice, to respecting internationally recognized human rights conventions.** This includes labor rights as outlined in the ILO Declaration on Fundamental Principles and Rights at Work, and women's rights as outlined in CEDAW. Corporate clients and investee companies should be expected to respect these human rights conventions and be able to demonstrate compliance with international, regional and/or national standards on social and human rights as a (pre)condition for the provision of finance. To strengthen their sustainability commitments, banks can also include human rights and labor rights expectations in loan contracts or underwriting agreements. The FFGI methodology includes a range of suggestions for how banks and investors can include international conventions and standards in their policies.
- **Develop sector policies for industries associated with significant environmental and social risks, including food and agriculture.** These policies should consider the issues that arise with different types of commodities, promote respect for the rights of workers and local communities, ensure proper land governance and encourage agribusinesses to apply internationally accepted practice standards.
- **Build internal capacity to implement sustainability standards and regulations** across different business units to embed sustainability in the corporate structure. These can include assessing credit risk, compliance, environmental and social risk, project finance, debt capital markets, equity capital markets, asset management and communication.

- **Adopt a gender-responsive approach to human rights due diligence**, including collecting gender-disaggregated data and ensuring that prevention, mitigation and remediation processes adequately address the (potentially) disproportionate and varying impacts on women and girls. In their human rights due diligence, banks should also pay attention to the rights and challenges faced by other vulnerable and marginalized communities, such as migrant workers, indigenous peoples or ethnic minorities.
- **Collaborate in regional platforms and initiatives that promote responsible investments and business practices in the agriculture sector** to collectively address social issues in Asian agribusinesses. Financial institutions should also encourage corporate clients and investee companies to participate in these platforms.
- **Develop engagement strategies to pressure agribusinesses clients and investees to cease and mitigate human rights abuses in the sector.** Engagement strategies should include clear and measurable goals, timelines and intermediate steps. Financial institutions should also publicly report the number of clients they have engaged with, the topics, the results and, as best practice, the names of the clients. Financial institutions should also actively engage or influence other lenders or investors to problematic companies to jointly put pressure for swift change.
- **Support and promote the adoption of binding legislation on responsible financing and business and human rights.** To prevent corporate clients from switching to other financial institutions with fewer human rights demands, legislation should set clear minimum rules for regulations on responsible financing and business and human rights.
- **Develop processes to enable remediation.** If financial institutions have financed companies involved in human rights violations, they have a responsibility to facilitate remediation. This process can be supported in a variety of ways. Financial institutions can require clients that operate in high-risk sectors/projects, or have a poor track record with responsible business conduct, to develop operational-level grievance mechanisms that meet the effectiveness criteria of the UNGPs. They can also engage with clients to ensure these mechanisms are widely known and accessible to affected stakeholders, and they can establish grievance mechanisms, either on their own or in cooperation with other stakeholders. In addition, financial institutions should commit to cooperate with non-judicial, state-based mechanisms, such as OECD National Contact Points or other processes (developed by trade unions, CSOs or others) that could enable remediation.

### 5.2.2 Recommendations for ASEAN and Asian governments

For the financial sector to better integrate human rights and gender considerations in their policies and practices, governments need to show strong leadership. FFA and GRAISEA offer the following recommendations to ASEAN and Asian governments to foster responsible investment in the private sector:

- **Sustainable finance taxonomies should help uphold human rights and labor rights standards.** The ASEAN Taxonomy for Sustainable Finance should not only focus on the transition to a low-carbon society, but also consider the different needs of individuals, workers and local communities. The Taxonomy should aim to uphold human rights and social standards, taking into consideration the rights and challenges faced by vulnerable and marginalized communities, as well as gender inequalities. This begins by requiring

investors to implement the UNGPs in their investment decisions and engagement initiatives, and to develop specific policies on the environmental and social risks associated with key sectors of the regional economy, including the food and agriculture sector. This recommendation also applies to all Asian countries developing a national sustainable finance taxonomy.

- **Develop enforcement mechanisms to ensure the ASEAN RAI Guidelines are adopted effectively.** The RAI Guidelines are a positive step in encouraging member states, businesses and investors to implement responsible business practices in the region. However, this study found that the policies of most of the food and agriculture sector's major creditors still overlook human rights, labor rights and women's rights, and that the sector is associated with serious abuses. Better collaboration between countries to monitor the implementation of the RAI Guidelines is needed, and ASEAN Member States could consider developing a regional, non-judicial grievance mechanism to enable CSOs and local communities to issue complaints when companies breach the Guidelines and to facilitate dispute resolution. The OECD NCPs, which handle complaints about alleged breaches of the OECD Guidelines for Multinational Enterprises, are an example of a non-judicial grievance mechanism. All OECD member and adhering countries are required to establish NCPs. NCPs operate at the national level, but complaints can be filed on the global activities of any corporation, as long as that corporation is headquartered in, or operating from, an OECD member or adhering country.
- **Asian countries should adopt national human rights due diligence legislation** that sets binding requirements for all companies, including financial institutions, to respect human rights across their entire value chains. These requirements would be in compliance with the UNGPs and the OECD Guidelines for Multinational Enterprises.
- **Monitor, evaluate and communicate about the implementation of national and regional policies for responsible financing.** Various standards have been developed at national and regional levels to encourage the financial sector to adopt more sustainable practices and ensure it is contributing to inclusive economic growth and women's empowerment. While all these standards include some disclosure requirements, they lack detailed reporting frameworks and guidelines with clear and measurable indicators. To develop such guidelines, governments should consult with CSOs, trade unions and academics that represent the voices of women, Indigenous peoples, migrant workers, ethnic or religious minorities and other marginalized communities. In addition, governments should conduct periodic evaluations (at least annually) to assess progress and adjust their action plans based on the results. This evaluation should be publicly accessible to strengthen dialogue between governments, the private sector, CSOs and local communities.
- **Develop and implement a National Action Plan (NAP) on business and human rights.** A NAP is a policy document in which a government articulates priorities and actions that it will adopt to support the implementation of UNGPs. The process of developing a NAP should be undertaken in an inclusive, transparent and participatory manner through multistakeholder dialogues. As a positive step, the governments of Japan, Pakistan and Thailand have developed NAPs on business and human rights. Resources should be allocated to disseminate the content of those plans to the private sector and conduct periodic evaluations to assess progress.

### 5.2.3 Recommendations for civil society organizations

Based on the findings of this study, the FFA and GRAISEA offer the following recommendations to Asian civil society organizations (CSOs):

- **Actively engage in the key consultative processes of financial institutions**, such as providing evidence-based inputs at annual general meetings and taking opportunities to comment on the policies of financial institutions.
- **Build capacity and strengthen strategic alliances to monitor the policies of financial institutions as well as government regulations that impact lending and investment decisions towards projects and businesses.** The FFGI methodology is a comprehensive and rigorous assessment tool that CSOs can use for this purpose.
- **Monitor the implementation of grievance redress mechanisms and the quality of engagement by financial institutions towards the businesses they finance** particularly those involved in large plantation and agricultural projects. Informed and active engagement should help to demystify community issues and gaps in policy and practice which is especially important to address the endemic gender and human rights issues in the sector.
- **Work together to track the cross-border financing** of key sectors (fossil fuels, agriculture and forestry) and **create platforms for sharing data, knowledge and experiences** across the region to uphold the duty of care by financial institutions.

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## CASE STUDIES: EXPLORING THE GAPS BETWEEN SUSTAINABILITY STANDARDS AND AGRIBUSINESS PRACTICES

Here, we present two case studies previously investigated by FFA coalitions that have shed light on serious violations of human rights, labor rights and women's rights: banana production in the Philippines and palm oil plantations in Indonesia. These cases provide evidence that financial institutions can be implicated in human rights violations through their financing and investments, and that efforts are needed to accelerate the adoption and implementation of responsible business practices as required by international sustainability standards.

### 1.1 Human rights violations in the Asian plantation sector: an historical perspective

Human rights violations and social issues in the plantation sector in Asia have occurred since the colonial era. In Indonesia, workers in coffee plantations in Java were forced to work intensively without wages or concern for their basic needs.<sup>1</sup> In Sumatra, tobacco plantation workers often experienced violence and were left to starve to death.<sup>2</sup> Meanwhile, in the Philippines during the colonial period (1901-1941), workers were forced into unpaid work on coconut and sugar plantations, producing mass quantities of agricultural products exported to the American market at a low price.<sup>3</sup>

Despite violations of social rights in the plantation sector, financial institutions had an important role in financing agribusiness during the colonial period. A study by McCoy in 1992 emphasized the significant role of the Philippine National Bank (PNB) in providing capital investments for milling technology in sugar plantations during American colonialization in 1916. By 1920, PNB had invested 44.1 million Philippine pesos in 10 mills and accounted for 30.7% of capital invested in the country's sugar factories.<sup>4</sup> The investment was made without conducting due diligence to determine creditworthiness. The PNB auditor in 1922 found that investment amounts were 40% above normal, leading to high risk of credit default.<sup>5</sup>

Human rights and social issues in the plantation sector are still an issue today, as industrial plantations continuously expand to meet global demand. The area planted with sugarcane worldwide expanded from 19 million to 26 million hectares between 2000 and 2013. Palm oil also experienced rapid growth from 10 million to 18 million hectares between 2000 and 2013, primarily in Indonesia and Malaysia, which account for 84% of global supply.<sup>6</sup>

Two case studies, banana plantations in the Philippines and palm oil plantations in Indonesia, have been selected to illustrate the gaps between policy and practice.

## 1.2 Labor rights violations in banana production in the Philippines

### 1.2.1 Overview

Bananas are predominantly produced in Asia, Latin America and Africa. The Philippines is one of the major producers worldwide, with an annual average of 7.5 million tons between 2010 and 2017.<sup>7</sup> The main variety of banana produced for export is the Cavendish banana, which is mainly produced in Mindanao, the second-largest island in the Philippines.

In 2018, Fair Finance Japan investigated the situation of workers in some banana plantations in Mindanao.<sup>8</sup> Japan relies heavily on the Philippines for banana consumption – an estimated 80% of bananas consumed in Japan are imported from the Philippines.<sup>9</sup> The study published by Fair Finance Japan in December 2019 focused on the violations of workers' rights by the banana company Sumifru (Philippines) Corporation. This company, originally set up by the Japanese trading house Sumitomo Corporation, is active in the sourcing, production, shipment and marketing of various fresh fruits, primarily bananas, pineapples and papayas. The company has markets in China, Japan, Korea, Middle East, New Zealand, and Russia. Sumifru's operations are spread out in the Province of Compostela Valley, located in the southeastern part of Mindanao.

Fair Finance Japan's investigation relied on field research supported by Fair Finance Philippines and was complemented by desk research. The research focused on the working conditions of two types of workers: growers and packers. Growers are farmers who work in banana plantations and can be divided into two categories. The first are farmers who own their land or lease their land to the banana companies, and the second are farmers who work on land owned by the company. Packers are workers who work in banana packing, and are often times deemed to have direct employment relationship with Sumifru.<sup>10</sup>

### 1.2.2 Human rights and social issues at Sumifru plantations

This section describes the main human rights and social issues observed on Sumifru plantations by Fair Finance Japan researchers.

- **Unfair contracts**

During its on-site research, Fair Finance Japan managed to get access to the copy of an employment contract of one of Sumifru's workers. This contract did not include the starting dates or the duration of the contract. Workers reported that Sumifru verbally informed the farmers that the contract would last between five and 10 years. Consequently, the farmers signed an open-ended contract that companies could extend by whim, even for 25 years.<sup>11</sup> Previous research conducted by Oxfam also revealed that farmers were locked into oppressive contracts with companies in the Philippines.<sup>12</sup>

Contracts were only available in English without any translations into the local languages Visayan and Tagalog, even though most farmers do not understand English. Furthermore,

the clauses observed in these contracts benefit the company and put farmers in a weak position to negotiate. For example, the right to cancel or terminate is only in the hands of the company, which also has the right to automatically renew the contract.<sup>13</sup>

Moreover, contracts between companies and farmers also prohibited third-party representatives, such as lawyers or family members who could help translate the contracts into their local language and assist them in negotiating the terms. Meanwhile, the company had the right to transfer the rights associated with a contract to a third party.

- **Low purchase prices**

The research revealed that the company buys bananas from farmers at very low prices. The contract did not include a clause for increasing the price based on inflation. Consequently, the purchase price remained unchanged from 2005 to 2017 at 150 Philippine pesos, about \$4. Since 2017, the price has increased to 200 Philippine pesos.<sup>14</sup>

- **Low wages and compressed workweek**

Packers receive low salaries that do not match the standard living wage set by the National Economic and Development Authority (NEDA), which estimates that an average family in the Philippines needs an aggregate income of P 42,000 to live above the poverty line. Packers only received a salary equivalent to the living wage if they worked overtime for more than 12 hours for 21 days per month, the study found.<sup>15</sup>

The company also introduced a compressed workweek (CWW) system, but it was not possible for packers who already worked overtime. Packers also did not receive extra pay for working late nights and on holidays.<sup>16</sup>

## COMPRESSED WORKWEEK

According to the ILO, “Compressed workweeks involve working hours being scheduled over fewer than normal working days and result in longer working days, but fewer days being worked each week. A compressed workweek system, then, usually extends the working day to beyond eight hours, but reduces the number of consecutive days worked to less than five; for example, in a schedule of four days of ten hours or three days of 12 hours.

In addition, in some cases compressed workweeks can consist of a higher than usual number of consecutive working days. Due to seasonal fluctuations in demand, for example, compressed workweeks might be introduced which result in workweeks of more than five consecutive days, followed by a number of days off.”

Source: Hamandia-Güldenber, A. (August 2004), “Compressed workweeks”; Conditions of Work and Employment Programme, International Labour Office Geneva.

After the introduction of the CWW system, normal work hours were 12 hours per day, and workers were only paid overtime if they worked more than 12 hours. Workers reported working for approximately 15 hours on a typical workday. However, on workers' salary slips the working hours were only eight hours per day with one to three hours of overtime, which was not the reality experienced by workers.<sup>17</sup>

- **Labor-only contracting**

Sumifru did not consider packers their employees because they are subcontracted to external “service providers”. However, Sumifru employees gave instructions to packers and Sumifru logos were clearly visible in the workplace.<sup>18</sup> Sumifru was among 20 companies suspected of malicious disguised subcontracting when the Philippines Department of Labor and Employment (DOLE) published a list of companies suspected to be engaged in labor-only contracting in May 2018. The consequence was that subcontracted workers did not have the same rights as employees hired directly by Sumifru.

The workers formed a trade union in 2008, requesting recognition as regular employees and demanded that Sumifru accept collective bargaining. However, Sumifru claimed that these workers were not its employees and rejected this request. The Minister of Labor and Employment decided that these workers were Sumifru employees in 2010. This decision was upheld by the Philippines Court of Appeals in 2012 and the Supreme Court in 2017. Sumifru appealed this decision and removed all Sumifru logos from the workplace.<sup>19</sup>

## LABOR-ONLY CONTRACTING

According to DOLE, labor-only contracting is completely prohibited and refers to an arrangement where:

- The contractor or subcontractor does not have substantial capital or does not have investments in the form of tools, equipment, machinery, supervision and work premises, among others; and
- The contractor's or subcontractor's employees that are recruited and placed are performing activities directly related to the main business operation of the principal (in this case study Sumifru) OR the contractor or subcontractor does not exercise the right to control over the work performance of the employee.
- In addition, in some cases compressed workweeks can consist of a higher than usual number of consecutive working days. Due to seasonal fluctuations in demand, for example, compressed workweeks might be introduced which result in workweeks of more than five consecutive days, followed by a number of days off.”

Source: Republic of the Philippines Department of Labor and Employment (2017), “Department Order No.174”, Series of 2017, pp. 2-3

- **Union busting**

Following repeated refusals from Sumifru to recognize the union representing the workers, they decided to go on strike. The same day they announced the strike, the director of the trade union and a worker were shot six times by unidentified men. Despite this failed attempt at intimidation, workers began striking on October 1, 2018, demanding that Sumifru management speak with them to forge a collective bargaining agreement, formally recognize workers and increase salaries.<sup>20</sup> After 10 days of strikes, the military forces of the Philippines and local police intervened and violently destroyed the strike base. A total of 17 people were injured and a woman who was four months pregnant was reported to be kicked in her lower abdomen. The residences of several workers and trade union offices were set on fire by unidentified persons.

Following the strike, Sumifru dismissed the workers who participated. Some workers continued their protests for months in Manila where the headquarters of Sumifru Philippines and DOLE are located. DOLE then decided to launch an investigation and, in March 2019, concluded that the simultaneous dismissal of workers by Sumifru in October 2018 was illegitimate. Despite this conclusion, Sumifru still refused to reinstate the workers.

### **A.1.1.3 Financial institutions involved**

At the time of the field research, the Japanese trading house Sumitomo Corporation owned 49% of shares in Sumifru, but sold its stake on 18 June 2019. The major shareholder of Sumifru is currently Thornton Venture Ltd., an investment vehicle registered in the Republic of Mauritius, a well-known tax haven.<sup>21</sup> Information on Thornton Venture Ltd is limited, which made it difficult to identify the financiers of Sumifru.

However, research conducted by Oxfam and Fair Finance Philippines have highlighted that state-owned banks, including the Land Bank of the Philippines (“Land Bank”), have fostered unfair and inequitable relationships between farmer cooperatives and large companies like Sumifru.<sup>22</sup> After Typhoon Bopha ravaged the provinces of Compostela Valley and Davao Oriental in Mindanao in 2012, the investigation found that Land Bank required agrarian reform beneficiaries (ARB) to enter tripartite agreements with Sumifru to obtain rehabilitation loans.

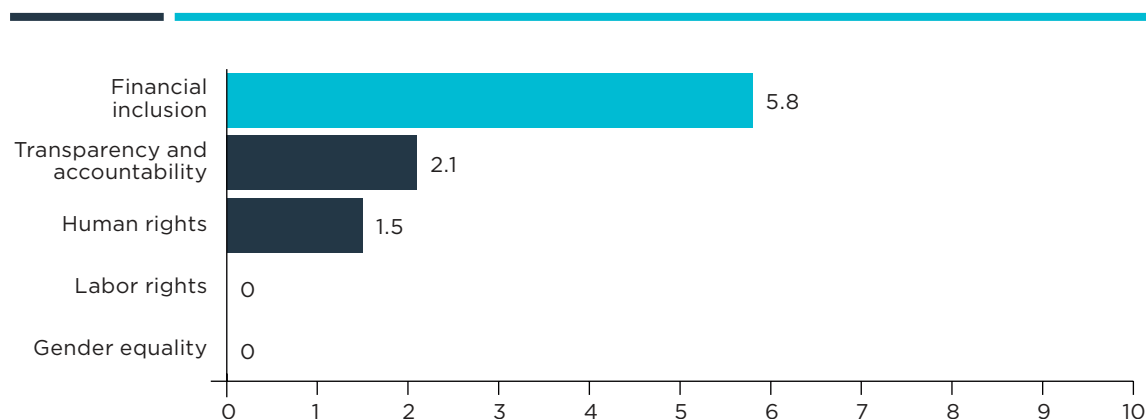
Since then, the relationships between Sumifru and ARBs have been deeply inequitable, and the company has unilaterally set the price for bananas and required the ARBs to buy fertilizers and other resources used for production from the company.

Land Bank has a development mandate to support farmers and fisherfolk. In addition, as a state-owned bank, it is also a duty bearer to protect human rights, which means it would have higher expectations than private banks. For these reasons, Land Bank is highlighted in this case study in relation to its financing of Sumifru.

### **A.1.1.4 Policy assessment**

The policy assessment of Land Bank produced the following scores:

**FIGURE 52: Land Bank's scores per theme (/10)**



- **Human rights**

Land Bank achieved a low score on human rights in the policy assessments (1.5 out of 10). The bank does not appear to have any policies addressing human rights issues, it does not commit to respect the UNGPs, nor does it request its clients to adopt human rights policies. In addition, Land Bank does not expect the companies they finance to establish or participate in effective operational-level grievance mechanisms for individuals and communities that may be adversely impacted by its operations. In general, banks in the Philippines, both private and state banks, score low on human rights and adequate ESG policies are generally absent.

This case demonstrates that the stakeholders impacted by the misconduct of Sumifru have not had channels to raise their concerns and have their grievances addressed.

The absence of a human rights policy also reveals that the bank still has a significant way to go to align with the requirement of the Sustainable Finance Framework of Bangko Sentral ng Pilipinas (BSP). Under this framework, banks are requested to set up an Environmental and Social Risk Management System (ESRMS) that provides *“clear guidance in assessing environmental and social risks in the bank’s operations, products and services, transactions, activities, and operating environment. The ESRMS shall also identify which sectors or activities [...] have harmful effects to the environment or society.”*<sup>23</sup>

Land Bank explained that it has only a “transactional” relationship with farmers. However, before requiring that the agrarian reform beneficiaries enter a tripartite agreement with Sumifru, the bank should have assessed the policies of the companies on a range of social issues and investigated its track record on human rights. It appears due diligence should be more of a priority for this state-owned financial institution, which has a specific social mandate to *“promote countryside development, helping spur credit activity and financial inclusivity for rural folks and communities.”*<sup>24</sup> Instead, farmers have been pushed further into poverty and indebtedness because of a deeply unequal relationship with Sumifru.

The ASEAN RAI Guidelines (see section 2.3.1) also state that responsible investments in food, agriculture and forestry in ASEAN should “consult meaningfully and responsively with groups and individuals affected by investment decisions, with due regard to power asymmetries, to ensure their active, free, effective, genuine and informed participation in those decisions”. This does not seem to have been the case for ARBs, who were brought into inequitable relationships with Sumifru because they had no other options to be eligible for a rehabilitation loan.

### 1.3 Human rights violations and social issues at palm oil plantations in Indonesia

Indonesia is the biggest palm oil producer in the world, producing around 48.3 million metric tons in 2020.<sup>25</sup> This commodity makes a significant contribution to the country’s economy, generating 4.5% of GDP and employing three million people.<sup>26</sup> Palm oil is also vital for the country’s exports, accounting for \$22.97 billion in 2020, a 13.7% increase from 2019.<sup>27</sup>

Palm oil plantations are usually large-scale monocultures.<sup>28</sup> They are frequently associated with human rights abuses and social injustices. A supply chain analysis study by CSOs in 2021 found that several major palm oil companies, namely Astra Agro Lestari, First Resources, Golden Agri-Resources (palm oil holding company of the Sinar Mas group) and Indofood Agri Resources (palm oil holding company of the Salim group), were associated with serious human rights abuses, including “the denial of indigenous peoples’ rights, expropriation of community lands without consent, involuntary displacement, violations of environmental rights, repression, harassment, criminalization and even killings of human rights defenders”.<sup>29</sup>

In addition, palm oil companies are frequently associated with systemic abuses of women’s rights. This includes labor exploitation and discrimination of women workers on palm oil plantations. Moreover, the loss of land, deforestation and the pollution of rivers associated with palm oil production has pushed women from subsistence farming into working for the palm oil companies for income.<sup>30</sup>

Despite severe human rights violations, major downstream companies and financial institutions continue to trade with or finance major palm oil companies, violating their policies and national, regional and international sustainability standards.<sup>31</sup>

This section presents a case study of labor rights abuses at the palm oil plantation Astra Agro Lestari in Central Sulawesi and links these abuses to the financial flows to this company. It intends to illustrate gaps between the policies and practices of financial institutions that financed Astra Agro Lestari despite its irresponsible business conduct. The case study includes an overview, a detailed description of the human rights abuses researched, the involvement of financial institutions and the gaps observed in implementing sustainability standards.

#### 1.3.1 Overview of the case

ResponsiBank, the Indonesian Fair Finance coalition, published a report in May 2021 that investigated the procedural unfairness of palm oil plantations towards smallholder farmers in Central Sulawesi. This study analyzed three subsidiaries of PT Astra Agro Lestari in the districts of Morowali and Morowali Utara in Central Sulawesi: PT Agro Nusa Abadi (ANA), PT Cipta Agro Nusantara (CAN) and PT Sawit Jaya Abadi (SJA).

PT Astra Agro Lestari Tbk is an Indonesia-based agribusiness. Astra Agro Lestari is the biggest palm oil company, controlling 287,877 hectares of plantations in Sumatra, Kalimantan and Sulawesi. The company is engaged primarily in agriculture, animal husbandry, trading, the processing industry (agro-industry), transportation and services (scientific and technical professional activities). Astra Agro Lestari is controlled by the Indonesian car producer Astra International.<sup>32</sup> In turn, Astra International is majority owned by Jardine Matheson Holdings, Singapore's biggest conglomerate by market value and controlled by the Scottish Keswick family.<sup>33</sup>

Through a combination of desk research and fieldwork, the ResponsiBank study revealed the unequal relationship between palm oil plantation companies and smallholder farmers. The plantation is managed based on a “nucleus-plasma” scheme, in which smallholders act as suppliers of fresh fruit bunches to palm oil companies. This scheme is part of the Law on Agriculture, which requires companies to allocate 20% of land to be managed by smallholders, with the aim of letting smallholders participate in the management of palm oil plantations. However, in practice, this scheme often creates an unequal relationship between the plantation companies and the smallholders. In many cases, companies play a dominant role in decision-making and management while smallholders have no bargaining power to negotiate and request clarity on information.

## NUCLEUS-PLASMA SCHEME

The nucleus-plasma scheme refers to a scheme in which companies build plantations on a land concession, most of which is allocated to large estates (nucleus) managed by big companies and a small proportion managed by farmers (plasma) through a debt scheme. This scheme is widely used in palm oil management because crude palm oil must be processed promptly after harvesting in large-scale processing plants or mills. Farmers in this system usually have contracts to sell the fresh fruit bunches they harvest to the nucleus estate under monopolistic market conditions. The nucleus estate management sets the standards for crop management and provides agronomic management and commercial services to smallholder farmers. The companies also closely supervise the smallholder farmers to ensure they produce sufficient volumes of fresh fruit bunches, to enable the company to recover the investment costs of the palm oil processing plant.

*Source: Jelsma, I., K. Giller and T. Fairhurst (2009), Smallholder Palm Oil Production Systems in Indonesia: Lessons Learned from the NESP Ophir Project, Wageningen, Netherlands: Wageningen University, p. 6.*

While many palm oil companies claim they manage nucleus-plasma schemes, in reality, companies often create “operator schemes” in cooperation with farmers. Under these schemes, the company manages all the lands, including land assigned to smallholders. Consequently, the company plays a dominant role while the smallholders have minimal, if any, participation in managing the palm oil plantations.

## OPERATOR SCHEME

An operator scheme, like the nucleus-plasma scheme, divides plots of land between companies and smallholder farmers. The difference is that the company manages the plantations, including the plasma plots, with minimal participation from farmers. Under this scheme, companies and farmers typically sign profit-sharing agreements. Farmers generally get a small proportion in the agreement, for example, around 10 per cent.

*Source: Cahyani, A. D., H. Ramdhaningrum, C. N. Aidha, F. Arminasari and D. R. Ningrum (2021), Procedural Unfairness in Smallholder Plasma-Nucleus Farmers and Palm Oil Companies Relation: Case Study Astra Agro Lestari Plantation in Central Sulawesi, Jakarta, Indonesia: Prakarsa, p. 33.*

### 1.3.2 Human rights violated by the plantation companies

This section provides more details on the abuse of human rights at the plantations of three subsidiaries of PT Astra Agro Lestari in Central Sulawesi. The social issues highlighted include an absence of human rights due diligence, unfair contracts, labor rights violations and land rights violations.

- **Human rights due diligence**

Three of Astra Agro Lestari's subsidiaries did not perform human rights due diligence before opening palm oil plantations in Central Sulawesi, in contravention of international and national standards. The three Astra Agro Lestari subsidiaries opened plantations with the support of the local government and police without consulting local communities. Some landowners were evicted from their land and others were excluded from the management of the palm oil plantations.<sup>34</sup>

PT Cipta Agro Nusantara (CAN) began to establish communication with the community in 2007, and the conversion of plantation land began in 2011 and 2012 by establishing a nucleus-plasma scheme farmer cooperative called Tamungku Inda, which consisted of 176 members. The residents proposed an income-generating activity (IGA) scheme in which the company would support farmers to open palm oil plantations by providing seeds and processing training and buying their harvest. However, the company rejected this scheme and offered an operator scheme instead. The memorandum of understanding for the operator scheme between the company and farmers was finally signed, but not all members understood the scheme.<sup>35</sup>

PT Agro Nusa Abadi (ANA) opened a plantation by taking land owned by residents, forcing the community to change their source of livelihood. The land conversion was not preceded by a compensation process for residents and, until 2020, there was no clarity about the nucleus-plasma scheme plantation lands promised to farmers.<sup>36</sup>

PT Sawit Jaya Abadi (SJA) obtained location permits to manage palm oil plantations in Petasia and Lembo sub-districts, Morowali district in December 2006. The location permit had several conditions, including compensation for community land and involving the community in the management of palm oil plantations. Astra Agro Lestari has reported on palm oil plantation activity since 2012, but the community was not involved until 2018.<sup>37</sup>

- **Unfair contracts**

The operator scheme between Astra Agro Lestari's three subsidiaries and smallholder farmers has forced farmers to take on debt, between IDR 85 million and 98 million per hectare. These debts represent costs incurred by companies to cultivate and prepare palm oil plantations on land owned by smallholder farmers. The amount of debt is based on calculations made by the company, and farmers were not provided with information on the amount of debt that needed to be paid, the amount of deductions from the harvest and the estimated length of debt repayment.<sup>38</sup> The company did not have a clear mechanism for farmers to obtain information on how much debt they have repaid, when their repayments started, the remaining instalments and how long they will last.<sup>39</sup>

- **Labor rights**

PT Cipta Agro Nusantara employed local people to clear land, but did not provide workers with equipment such as boots, gloves and other protective equipment.<sup>40</sup>

- **Land rights**

Since the beginning, the relationship between the three subsidiaries of Astra Agro Lestari and the farmers has not respected the land rights of the local communities and smallholders.

- *PT Cipta Agro Lestari*

The nucleus estate received 80% of the land or approximately 900 hectares, while the smallholders received 20% or approximately 188 hectares, with each household allocated a different plot size: two hectares, one hectare or half a hectare. More than 50% of households received 0.5 hectares while cooperative management had an average of two hectares.<sup>41</sup> The company did not provide clear information on the location of the smallholder plots, and the land has not yet been certified in the farmers' names.<sup>42</sup> Two farmers held certificates before the plantation began operating, but their lands were included as part of the nucleus-plasma scheme. Farmers believe that certified land should not be included in the operator scheme and advocate instead for an IGA scheme that is more profitable for farmers.<sup>43</sup>

- *PT Agro Nusa Abadi*

There has been debate over land rights since PT Agro Nusa Abadi opened a plantation in Central Sulawesi. The company established plantations on land that had been managed by farmers for 15 years. Farmers converted lands from swamps to plantations, fields and ponds. Due to the difficult cultivation conditions and the high risk of flooding, residents left the area. After they left, the company entered and opened a plantation in the area.<sup>44</sup> In the beginning of the project, the farmers did not dare to protest the land grabbing because the police backed up the land-clearing process. Farmers began to protest openly from 2012 to 2014. During this period, a total of seven villages were contracted under the operator scheme with the company. Because they had lost their land, people from these villages had to change their livelihoods.

The people of Bunta village experienced the worst conditions because water management by the palm oil plantations caused their once-productive farmland and houses in the village to be submerged. As a result, farmers in this village, including those with land certificates, had to move to other areas. Farmers in Bunta village protested but received no response from the company.<sup>45</sup>

Although these individuals already had contracts with the company and plots were promised to farmers in seven villages under the nucleus-plasma scheme, the company did not provide information on the location of these lands. Due to land disputes between the company and the farmers, in 2009 the Indonesian Government formed a task force to confirm the status of the lands in the seven villages.<sup>46</sup>

The land grabbing inspired the communities to hold protests. In 2012, the Bungintimbe village community blocked land from the company because there was no clarity in the land dispute,<sup>47</sup> and again in 2013.<sup>48</sup> Despite the frequent protests, Agro Nusa Abadi did not issue a decision on the nucleus-plasma scheme and did not have land use rights, which meant it should not have been permitted to manage palm oil plantations.<sup>49</sup>

On 20 August 2014, the Morowali Regent issued Regent Decree Number 188.45/Kep-B.MU/0096/VIII/2014 concerning Approval for Renewal of Location Permits for palm oil plantations and other supporters with an area of approximately 7,244.33 ha. In the same year, the company issued a company decree on candidate nucleus-plasma scheme farmers (CPP) in Molino Village. However, this decree was not accompanied by information on the allocation of land.<sup>50</sup>

In 2016, the Regent of Morowali issued a Regent Regulation related to farmers' compensation.<sup>51</sup> The Regent of North Morowali issued Decree (SK) Number 590/0445/ADPUM/IX/2016 concerning the Regulation of the Land Permit Location for PT Agro Nusa Abadi in Bungintimbe Village. This regulation explains that the granting of location permits to companies is in accordance with procedures; there was no land overlap and compensation was IDR 2.5 million per hectare. The Decree also stated that, for 198 hectares of overlapping land, as well as 728 hectares of land that was the object of a court decision, the land was designated as an Other Use Area (APL), which meant it would become part of the company's location permit unless the land had a Certificate of Ownership (SHM).<sup>52</sup>

This decision benefits the company and harms farmers because the location permit granted to the company is on land owned by farmers with proof of ownership recognized by the state. This injustice was reported to the central government and is included as a priority by the Office of the Presidential Staff (KSP), which has been discussed in the Team for the Acceleration of Agrarian Conflict Resolution since 2018.<sup>53</sup>

In 2019, the KSP cancelled the Regent's Decree, and today Agro Nusa Abadi operates on plantations without cultivation rights (HGU). Moreover, the company's Plantation Business Permit (IUP), which was only valid for three years, has expired. Based on the Minister of Agriculture Regulation Number 05/2019, companies must have an HGU to obtain an IUP. The issuance of new HGUs must await the resolution of land disputes, and the company should not be allowed to operate until a new HGU is issued.<sup>54</sup>

- *PT Sawit Jaya Abadi*

In 2006, the Morowali Regent granted Sawit Jaya Abadi a location permit to manage an 18,273-hectare palm oil plantation in Petasia and Lembo sub-districts, Morowali district, Central Sulawesi. The issuance of this location permit included provisions,

one of which is the provision of compensation for land owned by the community, as well as the participation of the community in the management of palm oil plantations.

Astra Agro Lestari has included palm oil operations by Sawit Jaya Abadi in their financial statements since 2012, but did not provide nucleus-plasma scheme plots to smallholder farmers. In 2015, the company began to promise land to the farmers, but non-participation of farmers was recorded by palm oil management between 2015 and 2018.<sup>55</sup>

This unfair management of palm oil plantations resulted in precarious living conditions for small-scale farmers and exacerbated poverty. Farmers have only had an income of between IDR 50,000 and 1.5 million per month, which is below the poverty line in Indonesia (IDR 2.1 million per month in March 2021).<sup>56</sup> In addition, the fact that palm oil plantations are operated as monocultures means that small-scale farmers are unable to cultivate other productive crops and generate other, alternative income.

### 1.3.3 Financial institutions involved

Due to the absence of data on direct financing flows to the three subsidiaries of Astra Agro Lestari, this study provides information on the flow of financing to the parent company, Astra Agro Lestari and relevant Jardine Matheson Group companies, as discussed in chapter 3.

## ASTRA AGRO LESTARI

Jardine Matheson Holdings, through its subsidiary Jardine Strategic Holding, Ltd., which is headquartered in Bermuda, formed a Singapore-based investment company called Jardine Cycle & Carriage Ltd. The company acquired 31% interest in PT Astra International Tbk in 2000, which has since increased to 50.1 per cent. Astra International is the parent company of Astra Agro Lestari, controlling 79.68% interest in the palm oil company. Astra Agro Lestari is the parent company of PT Cipta Agro Lestari, PT Agro Nusa Abadi and PT Sawit Jaya Abadi.

*Source: Info Sawit (2016, 13 October), "Jardine Matheson the Majority Owner of Astra Agro (AALI)", <https://www.infosawit.com/news/5438/jardine-matheson-si-pemilik-mayoritas-astra-agro--aali->; Jardine Cycle & Carriage (n.d), "Our history", <https://www.jcclgroup.com/about-us/our-history>, viewed in September 2021.*

As discussed in chapter 1, three Japanese financial institutions played a major role in financing Astra Agro Lestari and other Jardine Matheson Group companies from 2016 to April 2020. The most funding came from SMBC Group (\$178 million), followed by Mizuho Financial (\$163 million).<sup>57</sup> Mitsubishi UFJ Financial provided credit to Astra Agro Lestari and other Jardine Matheson Group companies amounting to \$64 million.<sup>58</sup> Local creditors also play a significant role, with loans from Bank Mandiri amounting to \$151 million.<sup>59</sup>

### 1.3.4 Policy assessment

This section focuses on four of the financiers of Astra Agro Lestari:

- Sumitomo Mitsui Financial Group (SMBC) (Japan);
- Mizuho Financial (Japan);
- Mitsubishi UFJ Financial (MUFG) (Japan); and
- Bank Mandiri (Indonesia).

While other banks are also financing Astra Agro Lestari, these four financial institutions were prioritized because they fall within the scope of Fair Finance Asia's policy assessments (see chapter 3). The scores assigned to the four banks for the five assessment themes (discussed in chapter 3) are summarized in Table 18.

**TABLE 18: Bank scores for five themes in the FFGI methodology (/10)**

Bank	Country	Gender equality	Human rights	Labor rights	Financial inclusion	Transparency and accountability
Sumitomo Mitsui Financial Group (SMBC)	Japan	3.2	3.8	5.1	Not assessed	4.4
Mizuho Financial	Japan	3.2	4.2	5.4	Not assessed	4.4
Mitsubishi UFJ Financial Group (MUFG)	Japan	3.2	4.2	5.3	Not assessed	4.1
Bank Mandiri	Indonesia	0.0	0.0	0.7	6.2	1.8

- **Gender equality**

Overall, the four financial institutions do not foster gender equality in their policies, scoring 2.4 out of 10 on average. Sumitomo Mitsui Financial Group, Mizuho Financial and Mitsubishi UFJ Financial Group received a similar score of 3.2. Indonesian Bank Mandiri had a score of 0.0 in gender equality.

- **Human rights**

Human rights were not given major consideration in the banks' policies. They had an average score of 3.1 out of 10.0. The Japanese banks scored better on human rights topics than the Indonesian bank. Mizuho Financial and Mitsubishi UFJ Financial Group received the highest score of 4.2, followed by Sumitomo Mitsui Financial Group with 3.8. Bank Mandiri did not appear to give any attention to human rights, receiving a score of 0.0.

This lack of policies is evident in the case study. According to international standards such as the UNGPs and the IFC Performance Standards, as well as regional mechanisms such as the ASEAN Guidelines, financial institutions have a responsibility to identify environmental and social risks in a financed project and to ensure that the investee company respects human rights. The Astra Agro Lestari plantations violated these

principles when three of its subsidiaries did not conduct human rights due diligence in line with the UNGPs and the OECD Guidelines, and the plantations did not respect the legitimate tenure rights of smallholder farmers in line with the OECD Guidelines and the ASEAN RAI.

However, none of the four financial institutions have addressed these issues. The ASEAN RAI Guidelines state that investors in food, agriculture and forestry in ASEAN should “*incorporate inclusive and transparent governance structures, processes and grievance mechanisms by [...] consulting meaningfully and responsively with groups and individuals affected by investment decisions, with due regard to power asymmetries, to ensure their active, free, effective, genuine and informed participation in those decisions*”. Accordingly, the banks linked to Astra Agro Lestari plantations should have ensured that meaningful consultations were carried out with the local community and smallholder farmers.

In other words, Sumitomo Mitsui Financial Group, Mizuho Financial, Mitsubishi UFJ Financial Group and Bank Mandiri did not fulfill their responsibilities under international and regional standards to ensure that their clients and investee companies respect human rights.

- **Labor rights**

The Japanese banks had higher scores in labor rights policies than the Indonesian bank. Mizuho Financial had the highest score at 5.4, followed by Mitsubishi UFJ Financial Group (SMBC) and Sumitomo Mitsui Financial Group (MUFG) with scores of 5.3 and 5.1, respectively. Bank Mandiri ranked last with a score of 0.7.

Despite their higher scores, the association with labor rights abuses in this case study show that the policies of the Japanese banks are still falling short. The UNGPs, IFC Performance Standards and OECD Guidelines stipulate that companies need to protect the health and safety of workers, yet PT Cipta Agro Nusantara did not provide employees with the necessary equipment to do their work, such as boots, gloves and other protective equipment. Financial institutions have a responsibility to monitor such labor rights abuses among their client and investee companies and engage with companies when these issues are raised.

- **Financial inclusion**

Bank Mandiri received a relatively high score for financial inclusion of 6.2. The Fair Finance coalition in Japan does not perform policy assessments for the financial inclusion theme, hence, Japanese banks do not have scores for this theme.

- **Transparency and accountability**

The Japanese banks had the highest scores for transparency and accountability. Sumitomo Mitsui Financial Group, together with Mizuho Financial, scored highest in this topic at 4.4, followed by Mitsubishi UFJ Financial Group with a score of 4.1. Again, Bank Mandiri received the lowest score (1.8).

Three subsidiaries of Astra Agro Lestari did not establish effective operational-level grievance mechanisms to enable the individuals and communities adversely impacted by their operations to raise concerns. In addition, smallholder farmers in the vicinity of the plantations are in debt to the companies for IDR 85 million to 98 million per hectare, but

were not provided with basic information about the debts nor a grievance mechanism to pursue this information.<sup>60</sup> Farmers also did not receive clear information about the status of the land they own and the amount they need to harvest for the companies to share this information. The three subsidiary companies have still not provided farmers with a channel to request or obtain this information.<sup>61</sup>

These practices are not aligned with the UNGPs, OECD Guidelines, ASEAN RAI Guidelines or sector-specific standards such as the RSPO, all of which require companies to establish or participate in grievance mechanisms and promote transparent business conduct. The financial institutions linked to Astra Agro Lestari have, under these same standards, a responsibility to ensure that the palm oil plantations operate in line with these standards and that an operational-level, external grievance mechanism is available for individuals and communities impacted by the financing activities of the banks.

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