

Request for Information Regarding IFC's Proposed Support for the Establishment of 250,000 hectares of Pulp and Paper Plantations in Indonesia in the Context of Global Climate Finance Efforts

8 February 2011

Rachel Kyte
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Dear Ms. Kyte,

We initially contacted you in April 2010, seeking information on the proposed IFC Advisory Services Project¹ and all projects and/or services associated with the IFC's "Sustainable Forestry in Indonesia" program.²

While we were heartened to learn from you in response to our query that the IFC is "not considering any investment at this time in p[aper] and p[ulp] companies in Indonesia"³, we nonetheless, continue to have significant concerns about the IFC support for pulp, paper and biofuel plantation establishment under the auspices of the Advisory Services project.

We were heartened to learn that "IFC would not invest in a prospective client that practices unsustainable or illegal harvesting of natural forests" and we understand that as of last April, the IFC had evaluated "over 10 candidate companies" in search of firms not engaging in illegal activities, "shar[ing] a commitment to community engagement", working on existing industrial forest plantation concessions with clear legal status and "no current company-community conflicts."⁴ We have been trying to contact your Jakarta-based project staff in order to set up a meeting for late February. As such, and in preparation for such a meeting, we would like to request, again, some of the same information we sought in April 2010 pertaining to the companies selected by the IFC.

¹Project number 56561 IIFC and all related projects.

² "The program will measure its progress through five- year targets of expanding plantation on degraded land by at least 250,000 hectares..", IFC press release, "IFC Launches Program to Help Create Forest Plantations on Degraded Indonesian Lands", Jakarta, Indonesia, 11/18/09

³ Letter from Rachel Kyte, Vice President, Business Advisory Services, IFC to CAPPA, `Ulu Foundation, RAN, FPP Urgewald, HuMa, et al, 5/19/10.

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The following information would enable us to have a productive meeting with your staff:

1) Identity of Companies, Track Records, Public Consultation Process

Please provide detailed information on track records of the proposed plantation companies, and if they are subsidiaries of larger companies or conglomerates, information on their parent companies. Such information would include:

- a. Any previous or current violations of laws, rules or regulations, including those pertaining to the environment, human rights, finance and corruption by proposed partner companies;
 - b. The number and extent of conflicts with local communities in areas where the companies have operated; if “no conflicts”, a description of the method used for ascertaining the lack of company-community conflicts;
 - c. The extent to which proposed pulp and paper plantation companies are associated with or linked, in any manner, to palm oil companies, the names and track records of the associated palm oil companies.
 - d. The extent of involvement or association of politically exposed persons in the ownership, financing or operation of the companies;
 - e. The bylaws of such companies, with special attention to the portions regarding transparency of information and requirements for environmental and social safeguards.
 - f. The method and documented records of community consultations and the extent to which and manner by which free, prior informed consent has been determined and obtained from potentially affected communities.
 - g. An assessment of the level of environmental and social risk associated with the activities of each company.
 - h. A description of environmental and social compliance requirements, measures for ensuring compliance, penalties for non-compliance, written into contracts with the plantation companies;
2. **Public comment on choice of companies.** Please describe the manner by which public comment has been and will be sought and collected on the IFC choice of companies. Will the IFC publish a list of potential partners and seek public input on the environmental, human rights, and climate track records of any such companies prior to committing to a partnership? What stakeholder engagement process and opportunities for public input into project design will accompany the project?
3. **Public comment on sub-national agencies.** The project proposes to partner with sub-national agencies and entities.⁵ Have specific sub-national agencies already been chosen? In the past decade, sub-national agencies and officials have often been at the lead in facilitating and sponsoring massive deforestation, illegal logging and forced seizures of community forests and lands by plantation and logging companies. Please explain the manner by which environmental, social and financial due diligence has been or will be conducted to assess the appropriateness of choice of sub-national partners and officials. What sort of screening or investigation of the former or current involvement of officials of such agencies in illegal forest sector activities, money laundering, land seizures or involvement in corruption has

⁵ IFC, “Forest Plantations on Degraded Lands: Promoting Sustainable Forestry, Improving Lives, 2009.

been carried out? Will there be a period of public comment on IFC choice of sub-national agency partners where the public would have the opportunity to provide information regarding environmental and social impacts currently associated with the activities of such agencies and officials? We understand that the IFC is working with the Provincial Government of Aceh and a number of plantation companies to plan the development of pulpwood plantations in Aceh. Please provide details of these planning activities, including the funding sources and the names of the companies that are being consulted.

4. **Environmental and Social Impact assessments.** Staff have explained that the IFC undertakes no environmental or social assessment of proposed plantation activities because this is an "advisory" project and have indicated that any assessments will be done solely by the companies involved in the project. Please provide copies of any such assessments for private sector plantation companies engaged in this program and indicate the methodology for gathering such information. Will the IFC require that the right of indigenous communities to give or withhold their free, prior and informed consent to proposed developments that may affect their customary lands is respected by companies conducting assessments, and in later phases of the project?
5. **Definition of “degraded” lands.** We were heartened to learn that “in all cases, the companies would use only degraded lands that would otherwise not be planted.” However, in Indonesia, historically, the term “degraded lands” has often purposefully and misleadingly applied to areas of rich forest cover, owned, inhabited and managed by Indigenous peoples and other forest dependent communities, in order to facilitate the seizing and clearcutting of such areas in the guise of “plantation establishment”. What definition of “degraded lands” will be applied with this financing, how will it be verified and what process of community consultation and ground-truthing has been or will be applied to identifying and assessing “degraded lands”? Will detailed maps of the proposed locations of such lands be made public and distributed to affected communities for public comment?
6. **Corruption: Lessons learned from Indonesia’s “reforestation fund” and forest sector debt write-off debacles.** Indonesia has substantial negative experience with significant flows of capital associated with plantation establishment. For example, over the past two decades, the national reforestation fund, *dana reboisasi*, has consistently been associated with massive corruption, illegal logging, human rights abuses, and extraordinary involvement of politically exposed persons. An analysis published in 2010 by the Center for International Forestry Research, funded by the World Bank, AUSAID and the European Commission⁶ found that the distribution of a “significant portion” of reforestation funds and forest conversion licenses had been made to “companies with ties to political elites, allowing a few well-connected actors to capture sizeable forest rents.” The only full-scale independent audit of the use of the reforestation funds, conducted in 1999 and still not released to the public, “documented systematic financial mismanagement, fraudulent practices by recipients of *Dana Reboisasi* subsidies and routine diversion of funds for uses that were not consistent with the Reforestation Fund’s mandate. CIFOR found that Ernst & Young documented,

⁶ Barr, C., Dermawan, A., Purnomo, H. and Komarudin, H. 2010 Financial governance and Indonesia’s Reforestation Fund during the Soeharto and post-Soeharto periods, 1989–2009: a political economic analysis of lessons for REDD+. Occasional paper 52. CIFOR, Bogor, Indonesia.

“losses of US \$5.2 billion in public funds during the five-year period FY 1993/4–FY 1997/8, approximately 50 per cent of which were incurred after receipts from the DR levy had entered the Ministry of Forestry’s accounts.”

Please provide information on the extent to which any plantation companies or their parent companies proposed for inclusion in this program have been recipients of Indonesia’s Reforestation Funds, the manner in which these funds have been used, documentation of the extent to which plantations established using these funds have been independently audited and found to be productive, and the extent to which concerns have been raised regarding fraud or other abuses of the funds. In addition, we request any information pertaining to the prior involvement of such companies or their parent companies in the substantial debt write-offs which plagued Indonesia’s forestry sector during the last financial crisis.

7. Funding

- 1) What are the IFC’s plans for funding this program and associated projects? Does the IFC have plans for working with other equity partners and what co-funders, if any, have been identified? According to media reports published at the time of the IFC launch, the IFC is prepared to invest between US\$75 million to \$200 million in this effort.⁷ Please clarify the total amount of IFC funds foreseen for this program.
- 2) We understand that the initial project is an "advisory services" project. Various IFC staff have indicated, however, that this project would involve the requirement of financial support from GOI. Please clarify if this project will require any funding from GOI. If so, what is the projected amount of funding to be supplied by any other means by GOI for this program?

We are hoping to meet with Indonesia-based project staff and would like to receive answers to our query prior to the meeting expected in the week of 20th February. As such, we are looking for a timely and detailed response to this request.

Thank you, in advance, for your attention to this matter.

Sincerely,

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⁷Kompas, 11/18/09, Lahan Kritis, IFC Siap Danai 250,000 Hektar. Jakarta: "Lahan kritis yang kami maksud, di antaranya berupa alang-alang dan memiliki stok karbon rendah," kata Kenneth. Program tidak mencakup lahan kritis di Papua dan Jawa. Untuk program ini, IFC menyediakan modal antara 75 juta dollar AS hingga 200 juta dollar AS. Dana itu di luar dana pembangunan kapasitas sebesar 4 juta dollar AS. Unofficial translation: Article in Kompas, 11/18/09, *Critical Lands, IFC ready to fund 250,000 hectares*. "The critical lands that we mean include alang-alang areas and those with low carbon stocks," said Kenneth [MacDicken]. This program will not include critical lands in Papua and Java. For this program, the IFC is preparing between US\$75 million to \$200 million. These funds are in addition to capacity development funds of US\$4 million."

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U.S. Treasury Department, U. S. Senate Committee on Foreign Relations, U.S. House Committee on
Financial Services