Early Warning System

IFC-36098

Indorama Kokand

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Quick Facts

Countries	Uzbekistan
Specific Location	Kokand City, Fergana Region
Financial Institutions	International Finance Corporation (IFC)
Status	Active
Bank Risk Rating	A
Voting Date	2015-12-17
Borrower	INDORAMA CORPORATION PTE. LTD.
Potential Rights Impacts	Healthy Environment, Labor & Livelihood, Right to Health
Investment Type(s)	Loan
Investment Amount (USD)	$ 40.00 million
Project Cost (USD)	$ 66.00 million

Project Description

The IFC is proposing a $40 million loan to Indorama Kokand Textile “to finance the expansion of its textile plant in Fergana Valley.” This expansion includes a new spinning facility on the existing plant and is meant to enhance the growth of Uzbekistan’s textile industry by increasing cotton yarn exports and the availability of high quality raw material for the local weaving and knitting industry. Site preparation began in June 2015, and the project is expected to be commissioned in the second half of 2016.

Early Warning System Project Analysis

Risk Assessment:
Category A. The IFC classifies this project as Category A due to the potentially significant social risks attached to the project "related to the supply chain, namely labor practices in the cotton production sector in Uzbekistan."

APPLICABLE SOCIAL & ENVIRONMENTAL STANDARDS
Based on IFC documents, the following environmental and social safeguard policies are triggered:

PS 1 – Assessment and Management of Environmental and Social Risks and Impacts – triggered due to the prevalence of child and forced labor within Uzbekistan's cotton industry, which is heavily regulated by the Government of Uzbekistan

PS 2 - Labor and Working Conditions – triggered because the project will lead to 350 additional employees, 85% of which will be women. Measures must be taken to ensure that Indorama Kokand Textile adheres to the policies and working conditions set out by the Government of Uzbekistan and the IFC's performance standards

PS 3 - Resource Efficiency and Pollution Prevention – triggered because the greenhouse gas emissions from facility activities are expected to increase from 38,000 tons of carbon dioxide annually to 65,000 tons carbon dioxide annually; monitoring is required for workplace emissions such as "cotton dust, nitrogen oxides, carbon monoxide, and other pollutants"; the new facility proposed includes plans for energy efficient equipment and resource efficient production lines

PS 4 – Community Health, Safety and Security – triggered due to possible traffic impacts from the project; the expansion will add four vehicle trips per day for raw materials and final product transportation to the eight trips already required and two bus trips for employee transportation per day in addition to the five bus trips already required.

People Affected By This Project

OUR RISK ASSESSMENT

Based on the IFC's project documents, this project poses potential risks to the following human rights:

LABOR RIGHTS:

The major issue associated with this project are related to the systemic practice of forced and child labor within Uzbek cotton production. According to IFC documents, farmers who lease land from the Government of Uzbekistan are required to produce a certain quota of cotton. They are given subsidies for production inputs such as seeds and fertilizer. In order to reach these government-mandated quotas, "local authorities often mobilize labor by requiring students, civil servants and individuals from the private sector to participate in the harvest." IFC documents claim that in response to pressure from non-governmental and private sector human rights campaigns the Government of Uzbekistan "has made significant progress in addressing the labor issues in the supply chain." However, according to a report by the Cotton Campaign, in 2015 the Uzbek government "forcibly mobilized approximately 500,000 people to weed cotton fields." According to the Environmental and Social Action plan, cotton will only be procured from areas covered by child labor and forced labor monitoring. Nevertheless, IFC documents acknowledge the possibility that Indorama Kokand Textile "may not always comply with the supply chain provisions of [Performance Standard 2 - Labor and Working Conditions] related to child and forced labor."

The IFC states that the Government of Uzbekistan has "implemented a number of approaches to ensure voluntary mobilization of adult labor" as well as "providing adequate food and lodging, and sanitary facilities for cotton pickers." However, within the same document the IFC acknowledges issues with worker accommodations for contracted workers: "accommodation conditions provided by the contractor for its workers are in need of improvement," in particular the sanitation conditions of the contractor's workers' camp. Details about these deficiencies are not provided by the project documents.

IFC documents state that the construction contractor is required to comply with local legal requirements related to occupational health and safety. However, during a visit to the proposed construction site, the IFC reported "a number of deficiencies in health and safety arrangements (e.g. lack of [personal protective equipment])."

RIGHT TO A HEALTHY ENVIRONMENT:

Government authorities monitor workplace noise and air quality (specifically levels of cotton dust) and, according to the IFC, the results "indicate compliance with the local regulations and the requirements of the World Bank Group [Environmental, Health, and Safety] Guidelines." However, insofar as facility activities create pollutants such as cotton dust, this can implicate the right to a healthy environment. Additionally, greenhouse gas emissions from the project are expected to increase from 38,000 tons of carbon dioxide annually to 65,000 tons carbon dioxide annually. According to the IFC, "the main source of air emissions at the facility are two boilers consuming on average 230,000 cubic meters of natural gas per year."

RIGHT TO HEALTH:

Though the IFC states that no cases of byssinosis (brown lung disease) have been reported to date by Indorama Kokand Textile, and there are dust evacuation systems in place at the facility, insofar as facility activities may expose workers to pollutants such as cotton dust, the right to health may be implicated. Workers manually handling cotton dust must use appropriate personal protective equipment.

Investment Description

- International Finance Corporation (IFC)

Private Actors Description

The loan will go to Indorama Kokand Textile, the leading cotton yarn producer in Uzbekistan and a joint venture between the National Bank of Uzbekistan (which owns about 11% of the company) and Indorama Synthetics (which owns about 89% of the company). Indorama Synthetics is headquartered in Jakarta, Indonesia. Indorama Kokand is a joint venture between Indorama Industry Pte Ltd, Singapore, a wholly owned subsidiary of PT Indorama Synthetics TBK (the “Sponsor”) with 89.26% ownership and the National Bank of Uzbekistan, which owns 10.74% of the Company.
Headquartered in Jakarta, PT Indorama Synthetics TBK is a subsidiary of Indorama Corporation Pte Ltd, Singapore. PT Indorama Synthetics is one of the largest producers of polyester and spun yarn in Indonesia and is listed on the Jakarta Stock Exchange.

Private Actor 1	Private Actor 1 Role	Private Actor 1 Sector	Relation	Private Actor 2	Private Actor 2 Role	Private Actor 2 Sector
-	-	-	-	INDORAMA CORPORATION PTE. LTD.	Client	-
-	-	-	-	PT. Indo-Rama Synthetics Tbk	Parent Company	-

Contact Information

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CONSULTATIONS

In August 2015, IFC Environmental and Social Specialists visited Indorama Kokand Textile's facilities and the local communities of the project site "and convened discussions with the management and technical staff" of the company. The IFC also met with representatives of Indorama Kokand Textile's trade union, local stakeholders (community organizations called mahallas), and the Administration of the City of Kokand. The issue of child and forced labor was "a key focus of IFC's due diligence and risk assessment." The IFC met with the Government of Uzbekistan's Coordinating Council on Child and Forced Labor and "engaged with representatives of the government agencies and companies working in the cotton sector such as Uzinterimpex and Uzbekyengilsanoat, and the United States Embassy and European Union Delegation to Uzbekistan who are actively involved in countrywide activities on the issue." The IFC also met with representatives of the company's cotton supply chain in Kokand and interviewed "cotton producing farmers, management and technical staff of a local cotton gin and cotton terminal supplying raw cotton fiber" to Indorama Kokand Textile. From August 5-6, 2015, the IFC attended the Cotton Roundtable in Tashkent, which was organized by the International Labour Organization and the Government of Uzbekistan. At the Cotton Roundtable the IFC spoke with local and international organizations about reforming labor practices in the cotton sector. As part of its Environmental and Social Management System, the IFC states that Indorama Kokand Textile will develop a formal process for stakeholder engagement, "including associated consultation, information disclosure and grievances as per the [Environmental and Social Action Plan]," which is not available online at the time of writing.

ACCOUNTABILITY MECHANISM OF IFC

The Compliance Advisor Ombudsman (CAO) is the independent complaint mechanism and fact-finding body for people who believe they are likely to be, or have been, adversely affected by an IFC or MIGA- financed project. If you submit a complaint to the CAO, they may assist you in resolving a dispute with the company and/or investigate to assess whether the IFC is following its own policies and procedures for preventing harm to people or the environment. If you want to submit a complaint electronically, you can email the CAO at CAO@worldbankgroup.org. You can learn more about the CAO and how to file a complaint at http://www.cao-ombudsman.org/

Campaign Documents

- Human Rights Watch: Forced Labor Linked to the World Bank

Other Related Projects

- IFC-39112 JSC Indorama Kokand Fertilizers and Chemicals
- IFC-42352 Indorama Cotton
- EBRD-54302 DFF - Indorama Kokand WC II