

Proposed IFC Investment in Indorama Kokand
Uzbekistan
December 17, 2015

The United States believes the World Bank Group can play an important role in helping the Government of Uzbekistan implement its commitments to modernize the country's agricultural sector and eradicate the use of child and forced labor. Further, the United States recognizes that there has been real recent progress on these issues, particularly with respect to child labor. However, the United States has serious concerns with the timing and the substance of IFC's proposed investment in Indorama Kokand Textile, LLC, (the company) and cannot support this operation.

First, the timing of IFC's proposed investment is such that the Board is being asked to assess the operation without the benefit of the information and analysis that will come with Uzbekistan's new Country Partnership Framework (CPF), which the United States believes is critical to making a properly informed decision. The ILO's recent assessment points to significant risks of ongoing involuntary labor practices linked with the Government of Uzbekistan's quota system for cotton production.

It is our expectation that the CPF will be the opportunity for the Board to discuss how the World Bank Group plans to address these ongoing risks, including through sector policy reforms, and develop the information needed to ensure that child and forced labor is not being used by the beneficiaries of World Bank projects.

In this context, IFC's proposed investment could have the unintended effect of contributing to, rather than helping to eliminate, the quota-driven system of cotton production, which is the ultimate driver of illegal labor practices in the country. Absent a larger effort to reform the sector, informed by a robust analysis of the political economy dynamics underpinning the current system of production, the near-term consequences of its elimination, and a credible time-bound path for transition, we are unable to fully assess the merit of this individual transaction given a lack clarity regarding how this proposed investment aligns with the forthcoming CPF.

Second, the United States has serious concerns about the adequacy of IFC's proposed risk mitigation measures, which are premised on both the ILO's and the company's ability to trace cotton production to the farm level. While the United States fully supports the ILO's efforts, the ILO has neither the mandate nor the capacity to perform detailed, farm-level monitoring to support IFC's proposed mitigation measures. It is worth noting, for example, that the ILO's recent report did not disaggregate risk factors by geographical area. Since the Government of Uzbekistan is not permitting independent monitoring of the cotton supply chain, the United States does not see how the proposed mitigation measures can be monitored.

Coupled with a still to-be-determined sector reform program and the company's inability to identify the exact point of origin of the cotton that it purchases, the United States is not confident that the company has the ability to effectively implement its commitment to "refrain from purchasing cotton originating from areas where child or forced labor may be present." As such, the United States believes, at a minimum, that it is entirely premature to credibly expect the

project to generate the envisaged private-sector signal for sustainable cotton production in Uzbekistan.

In response to what the United States views as major weaknesses in the mitigation measures outlined in the proposed investment, if the proposed investment were to go forward, the United States expects the IFC to provide the Board, by no later than the time of consideration of the upcoming consideration of the country partnership framework,:

- i) a detailed plan of how the company will fulfill its commitment to ensure traceability of its cotton supply; including plans on how it would work with suppliers to address forced labor and assist victims if forced labor is found within its supply chain;
- ii) a detailed plan of how the company will gather data on forced labor at the farm level;
- iii) an update regarding whether the company would be willing to undertake an independent, third-party audit within one year to evaluate its compliance with, and the efficacy of, its environmental and social action plan; and
- iv) more information on how the company will “support sustainability initiatives” in the cotton sector, as outlined in IFC’s investment proposal.

Looking ahead, the United States also urges the World Bank Group to engage the Government of Uzbekistan, the ILO, and independent civil society in a sustained dialogue to strengthen monitoring mechanisms for 2016 harvest. For example, this includes the development of a truly credible, independently-verifiable feedback mechanism, a central element of the World Bank’s action plan in response to an Inspection Panel case involving a World Bank project in Uzbekistan’s agricultural sector. In addition, the United States expects the World Bank to clarify to the Board how information gleaned from the ILO monitoring will be regularly used to monitor and supervise World Bank projects, several of which contain loan covenants expressly prohibiting the use of forced labor in project-affected areas.

At the end of the day, the United States fully supports the World Bank Group’s goal of ensuring the sustainability of Uzbekistan’s cotton sector – and the liberalization of its agricultural sector. To achieve this goal, however, will require a robust strategy of engagement, a careful sequencing of operations, and clear metrics for success that encourage the Government of Uzbekistan to follow through on its commitments, rather than perpetuating the status quo. Unfortunately, the United States does not believe that IFC’s proposed transaction meets these criteria and urges the World Bank Group to work to address the shortcomings of this project and the lack of independent monitoring and feedback on the prohibitions against child and forced labor.