Wilmar Trading - IFC Project no. 20348

A briefing prepared on behalf of

Milieudefensie / Friends of the Earth Netherlands

and

Sawit Watch Indonesia

27 February 2004

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Summary

The International Finance Corporation (IFC) has made public its intention to provide the Singaporean company Wilmar Trading a partial guarantee of up to US$ 33.3 million. This partial guarantee will help Wilmar to secure a pre-shipment finance facility of up to US$ 50 million from an anonymous commercial bank. The guarantee will be renewable annually for a maximum of three years.
Wilmar needs the pre-shipment finance facility to pay its suppliers already before the palm oil is shipped. After the palm oil is shipped, Wilmar will receive payment from its clients and will be able to repay the pre-shipment credits to the commercial bank. The commercial bank however demands guarantees that the pre-shipment credits will indeed be repaid by Wilmar. These guarantees would normally be provided by Wilmar or its shareholders, but Wilmar has requested the IFC, which is the private sector subsidiary of the World Bank Group, to provide a large part of these guarantees.

The Board of the IFC is expected to decide upon the proposed guarantee in March 2004. This briefing intends to provide to the Board of the IFC information about the envisaged client and presents the arguments against the project.
We argue that the IFC Board should not to approve the project, for three reasons:

- The standard operational procedure applied by the IFC's Environment Department by which trade related services are categorised as *Category C*, should be revised in view of the possible on-the-ground impacts of trading activities like Wilmar's. It is beyond argument that the Indonesian oil palm plantation subsidiaries of the Wilmar Group and its third party suppliers in Indonesia benefit directly from Wilmar's trading activities. It is also generally acknowledged that oil palm operations may have significant adverse impacts on the environment and on local communities. Wilmar's trading activities should therefore be categorised as *Category A* or *Category B*.

- Despite of the lack of transparency of the Wilmar Group and the absence of any environmental and social assessment of its operations, there is ample evidence suggesting that Wilmar's Indonesian oil palm plantation subsidiaries as well as its third party suppliers indeed cause significant adverse impacts on the environment and on local communities. The type, location and scale of Wilmar's operations necessitate a full environmental and social assessment, before committing any IFC financing. By categorizing the project as *Category C*, the IFC will not have the necessary information nor the required tools to ensure that Wilmar will comply with the IFC *Social and Environmental Guidelines.*

- Furthermore, it is the IFC's basic policy not to compete with the commercial sector. Wilmar and its shareholders have proven to be quite capable of raising capital from commercial sources and there is no evidence to prove that the group needs the IFC to guarantee the proposed credit facility.

Indonesia is in need of trade financing and investments and the IFC could play a very important role in this respect. But the proposed guarantee for Wilmar Trading is not likely to contribute to sustainable development at all. If the IFC wishes to promote exports and sustainable development in the oil palm sector, it should seek to help small to medium-sized Indonesian companies and independent plantation owners to attract financing, in order to assist them in improving productivity and management of *existing* plantations. An IFC oil palm policy is needed to define the conditions under which these kind of companies are eligible for IFC support.

Introduction

The International Finance Corporation (IFC) has made public its intention to provide the Singaporean company Wilmar Trading a partial guarantee for up to US$ 33.3 million. This partial guarantee will help Wilmar to secure a pre-shipment finance facility of up to US$ 50 million from an anonymous commercial bank. The guarantee will be renewable annually for a maximum of three years.[1]

Under the pre-shipment finance facility the commercial bank will provide credits (up to a maximum of US$ 50 million) to Wilmar to pay for the purchase, processing and packaging of palm oil from Indonesian oil palm plantation companies. After shipping the (crude or refined) palm oil to its clients, Wilmar will receive payment. Wilmar will use part of these payments to repay the credits provided by the commercial bank.

In case Wilmar is not able to repay (a part of) these credits to the bank, for instance because its clients go bankrupt, the IFC will repay Wilmar's debt to the commercial bank (up to a maximum of US$ 33.3 million). This partial guarantee therefore considerably reduces the risks carried by the commercial bank.

If the IFC does not provide this guarantee, the commercial bank will demand other guarantees from Wilmar to reduce the risk on the pre-shipment finance facility. These guarantees would normally be provided by Wilmar itself in the form of collaterals (inventories, property or other assets) or by its shareholders. As such guarantees would tie up the assets owned by Wilmar and/or its shareholders and would therefore reduce their financial flexibility, it is more attractive for them to ask the IFC, which is the private sector subsidiary of the World Bank Group, to guarantee a large part of the pre-shipment finance facility.

The Board of the IFC is expected to decide upon the proposed guarantee in March 2004. Responding to the Summary of Project Information (see Appendix 1), this briefing provides to the Board of the IFC information about the envisaged client and arguments against the project.

This briefing is prepared on behalf of Friends of the Earth Netherlands (Milieudefensie) and Sawit Watch Indonesia. Friends of the Earth Netherlands (Milieudefensie) is a Dutch national organisation with a hundred local groups. Founded in 1971, it has approximately 70,000 members and contributors. Milieudefensie has been actively engaged in issues connected with the Indonesian oil palm sector since 2000. At the end of 2001, Milieudefensie (together with Greenpeace Netherlands) succeeded to persuade four major Dutch commercial banks to developed policies for their investments in the oil palm sector.[2]

Sawit Watch is an Indonesian NGO set up in 1998, which has built a network of over 50 member-NGOs and local contacts working with dozens of local communities in Sumatra, Kalimantan and Sulawesi. Sawit Watch supports local communities who have lost their forests and livelihoods because of large-scale oil palm expansion and for those in forestlands who continue to resist this development. [3]

The contents of this briefing are as follows: In the first paragraph we discuss the categorisation of this project, arguing that the project should not be categorised as *Category C* by the IFC.

The second paragraph discusses the social and environmental impacts of Wilmar's operations in Indonesia, providing ample indications that these could have adverse social and environmental impacts and could be contravening the *IFC Forestry Policy*.

The third paragraph looks at Wilmar's ability to raise financing from commercial sources without IFC support, arguing that Wilmar and its shareholders have a high creditworthiness and don't need IFC support.

This briefing ends with some conclusions and recommendations in paragraph 4.

Paragraph 1 Categorisation of the Wilmar project

Each investment proposal which is submitted to the International Finance Corporation (IFC) for financing, is screened by the IFC's Environment Division to decide on the nature and extent of the environmental assessment needed for the project. Projects are categorized into four environmental review categories, depends on the type, location, sensitivity, and scale of the project as well as the nature and magnitude of its potential impacts. The four categories are defined as follows (see Appendix 1):

- **Category A**: A proposed project is classified as *Category A* if it is likely to have significant adverse environmental impacts that are sensitive. For a *Category A* project, the project sponsor is responsible for preparing a full report, normally an Environmental Impact Assessment (EIA) and for preparing and updating an Environmental Action Plan (EAP).

- **Category B**: A proposed project is classified as *Category B* if its potential adverse environmental impacts on human populations or environmentally important areas - including wetlands, forests, grasslands, and other natural habitats - are less adverse than those of *Category A* projects. These impacts are site-specific; few if any of them are irreversible; and in most cases mitigation measures can be designed more readily than for *Category A* projects. The scope of EA for a *Category B* project may vary from project to project, but it is narrower than that of EA for a *Category A* project. Like *Category A* EA, it examines the project's potential positive and negative impacts and recommends any measures needed to prevent, minimize, mitigate, or compensate for adverse impacts and improve environmental performance.

- **Category C**: A proposed project is classified as *Category C* if it is likely to have minimal or no adverse environmental impacts. Beyond screening, no further EA action is required for a *Category C* project.

- **Category FI**: A proposed project is classified as *Category FI* if it involves investment of the IFC funds through a financial intermediary in subprojects that may result in adverse environmental impacts.

IFC's Environment Division categorised the proposed guarantee to Wilmar Trading as a *Category C* project (see Appendix 1). This implies that the project, according to the IFC, is "likely to have minimal or no adverse environmental impacts".
From email correspondence with one of IFC's staff, it was understood that the IFC nevertheless expects that "this project would ensure that the exporter/producer will comply with the *IFC Environmental and Social Guidelines*, an important element in Indonesia."[4]
However, it is hard to see how this compliance is to be achieved when the envisaged project is believed to have "minimal or no adverse environmental impacts", even without an Environmental Impact Assessment (EIA) or an Environmental Action Plan (EAP).

Although not formally formulated, it seems to be a standard operational procedure for the IFC's Environment Department to categorise trade-related financing as *Category C*. We argue that this procedure should be revised in view of the possible on-the-ground impacts of trading activities like Wilmar's, for the following reasons:

- It is generally acknowledged that many Indonesian oil palm operations have had - or are still having - significant adverse impacts on the environment and on local communities.[5]

- It is also increasingly accepted that the financial institutions that provide capital to oil palm plantation companies bear a responsibility to assure that adverse impacts are avoided and/or mitigated. The IFC itself categorises loans to Indonesian oil palm companies, such as to the oil palm company PT Gawi (Wings Group) in May 2001, as *Category B* projects.[6] This means that the project has "potential adverse environmental impacts on human populations or environmentally important areas - including wetlands, forests, grasslands, and other natural habitats", although these impacts are probably "less adverse than those of *Category A* projects". For *Category B* projects an Environmental Assessment is obligatory, which "examines the project's potential positive and negative impacts and recommends any measures needed to prevent, minimize, mitigate, or compensate for adverse impacts and improve environmental performance." (see Appendix 1).

Similarly, at the end of 2001 four major Dutch commercial banks have developed policies for their investments in the oil palm sector. These policies limit the banks' activities in the oil palm plantation sector to clients which adhere to the following basic requirements:

- The company is not involved in burning forestland for oil palm development;
- The company is not clearing tropical rainforest for oil palm development;
- The company respects the rights and wishes of local communities;
- The company respects Indonesia's law and relevant international conventions.[7]

- It is beyond argument that the Indonesian oil palm plantation subsidiaries of the Wilmar Group and its third party suppliers in Indonesia benefit directly from Wilmar's trading activities. An impetus to Wilmar's trading activities could therefore provide a direct stimulus to the expansion of its Indonesian oil palm plantation subsidiaries and third-party suppliers. In the absence of any Environmental Assessment, risks are high that this expansion process could have significant adverse impacts on the environment and on local communities.

- The automatic categorization of trade credits as *Category C* implies that the IFC denies the impact that trade relations can have on environmental and social issues. This would then mean that efforts by edible oil processors, such as Unilever, to promote sustainable oil palm are also void. Companies like Unilever increasingly acknowledge that poor management practises by suppliers affect product quality as well as the reputation of all companies in the trade chain. Therefore they use their trade relations to influence the operations of their oil palm suppliers on-the-ground.[8]

- IFC's policy is also inconsistent because it requires an individual plantation company to go through the full procedures required for *Category B* projects, which or not required for a large trading company that is part of a holding which operates a much larger number of plantation estates which jointly have a much greater impact than an individual plantation company.

- Finally, when this project is not categorised as *Category A* or *Category B*, the IFC will not be in a position to ensure that Wilmar will comply with the IFC's *Environmental and Social Guidelines,* which the IFC deems so important to Indonesia.

Paragraph 2 Wilmar's environmental and social performance

There is ample evidence suggesting that Wilmar's trading operations contribute to significant adverse environmental and social impacts both in the plantation areas under the group's control, as well as in the areas managed by third party suppliers. Wilmar and its third party suppliers might be contravening the *IFC Forestry Policy* as well as other *IFC Operational Policies* in several respects.[9]
A first outline of Wilmar's environmental and social performance is presented below.

- **Lack of transparency**

  Considering the sheer size of the Wilmar Group, it is striking how little information is available about the group's activities in Indonesia. The Group lacks transparency relative to other plantation company groups.
  The company has not published an investment and purchasing policy for its core activities that are environmentally or socially sensitive. Nor does the Group openly participate in multi-stakeholder platforms such as those on Food Safety (Medan, June 2003) or the Roundtable on Sustainable Palm Oil (August 2003).
  To understand the group's operations, and its impacts on biodiversity and indigenous peoples and to verify information that the group is involved in sensitive practises, a full environmental assessment is required. A first step in such effort is to map the supply lines that feed into Wilmar's processing and trading companies.

- **Plantations owned by Wilmar**

  The Wilmar group owns four palm oil refineries in Indonesia and one in Malaysia with total palm oil refining capacity of 3.3 million tons per annum. These plants are supplied with crude palm oil (CPO) from the group's own plantations as well as from third party suppliers. Which Indonesian oil palm plantation companies and CPO mills belong to the Wilmar Group is not completely clear, but the following table provides a tentative overview based on various sources: [10]

Plantations and CPO mills of the Wilmar Group	*Area (ha)*	*Location*
Agra Masung Perkasa	12,800	West Sumatra
Agrindo Indah Persuda	n.a.	
Agro Nusa Indah Persada	n.a.	North Sumatra
Agro Palindo Sakti	n.a.	South Sumatra
AMP Plantations	7,255	
Binanga Karya	392	North Sumatra
Bukit Permata Hijau	n.a.	Sulawesi
Bukit Zaitun	n.a.	Sulawesi
Buluh Cawang Plantations	5,750	South Sumatra
Bumi Kerta Reksarahardja	n.a.	
Bumipratama Khatalistiwa	13,552	West Kalimantan
Dharma Wangi Guna	n.a.	
Ekusino Jayatama	n.a.	West Sumatra
Gersindo Minang Plantation	4,600	West Sumatra
Jatim Jaya Perkasa	n.a.	Riau
Murini Samsam	n.a.	Riau
Musi Banyu Asin Indah	24,000	South Sumatra
Mutiara Bunda Jaya	n.a.	South Sumatra
Perkebunan Milano	5,872	North Sumatra
Permata Hijau Pasaman	n.a.	West Sumatra
Primatama Muliajaya	1,143	West Sumatra
Sawit Selatan	n.a.	South Sumatra
Selapan Jaya Permai	7,225	South Sumatra
Selatan Jaya	25,700	South Sumatra
Sinarperdana Caraka	n.a.	
Sinarsiak Dianperma	n.a.	Riau
Sirontalo Perkasa	n.a.	Sulawesi
Tania Selatan	15,000	South Sumatra
Telaga Hikmah	22,867	South Sumatra
Umada	1,511	North Sumatra
Total	**>162,667**	

- **Third party suppliers**

Wilmar's refineries are supplied not only by the Group's own estates but also by numerous third party suppliers. Among the Indonesian oil palm plantation companies that are selling palm oil to the Wilmar Group are: [11]

Oil palm plantation company	Group
Astra Agro Lestari	Astra Agro Group
Cirenti Subur	Dutapalma Group
Dutapalma Nusantara	Dutapalma Group
Intibenua Perkasa	
Ivo Mas Tunggal	Sinar Mas Group
Johan Sentosa	Dutapalma Group
Kencana Amal Tani	Dutapalma Group
Kantor Pemasaran Bersama Perkebunan (KPB)	Nusantara Group
Musim Mas	Musim Mas Group
Permata Hijau Sawit	
PP London Sumatra Indonesia	Napan & Risjadson Groups
Sari Lembah Subur	Astra Agro Group
Sawitra Oil Grains	Salim Group
Tunggal Perkasa	Astra Agro Group

Wilmar is also buying crude oil palm products in Papua New Guinea, from New Britain Palm Oil (Johor Group).[12]

- **Deforestation**

In Indonesia, many oil palm plantations have been and are being established in tropical rainforest and wetland (peat swamp) areas, resulting in dramatic biodiversity losses and carbon releases. The full extent to which Wilmar's subsidiary plantation estates and thir-part suppliers have been or are involved in the conversion of such sensitive habitats is not known but likely to be significant. A few examples:

- Wilmar subsidiary PT Jatim Perkasa Jaya in Rokan Hilir district in Northern Riau has an oil palm concession of 9,000 hectares in the coastal zone that is obviously located in a peat swamp forest area. A satellite image taken in 2000 shows a large tract of recently deforested land in the south and southwest parts of its concession (in pink; forest is dark green).

Figure 1. **Approximate location of the PT Jatim Jaya Perkasa concession**

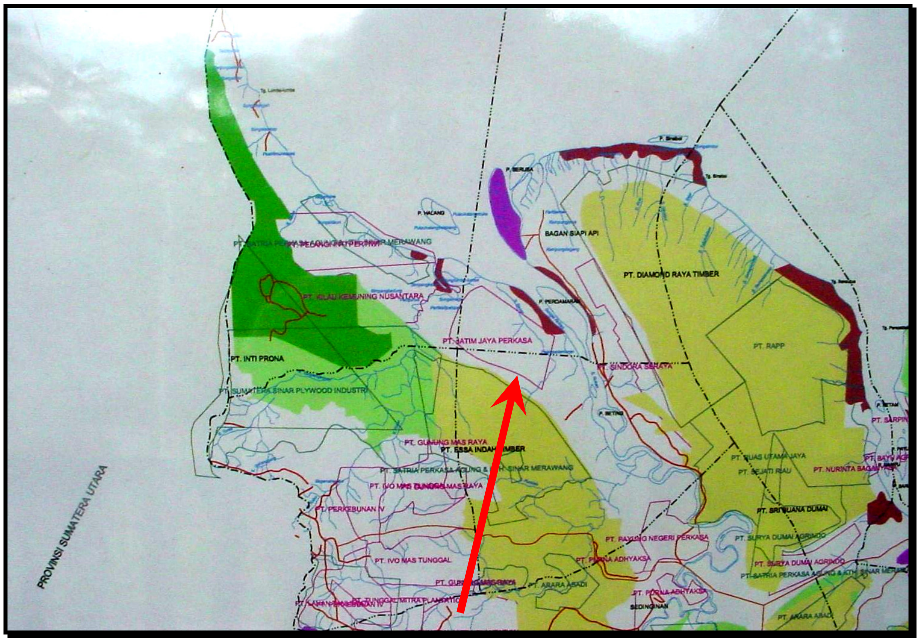


Figure 2. **Exact location of the PT Jatim Jaya Perkasa concession in Riau** [13]

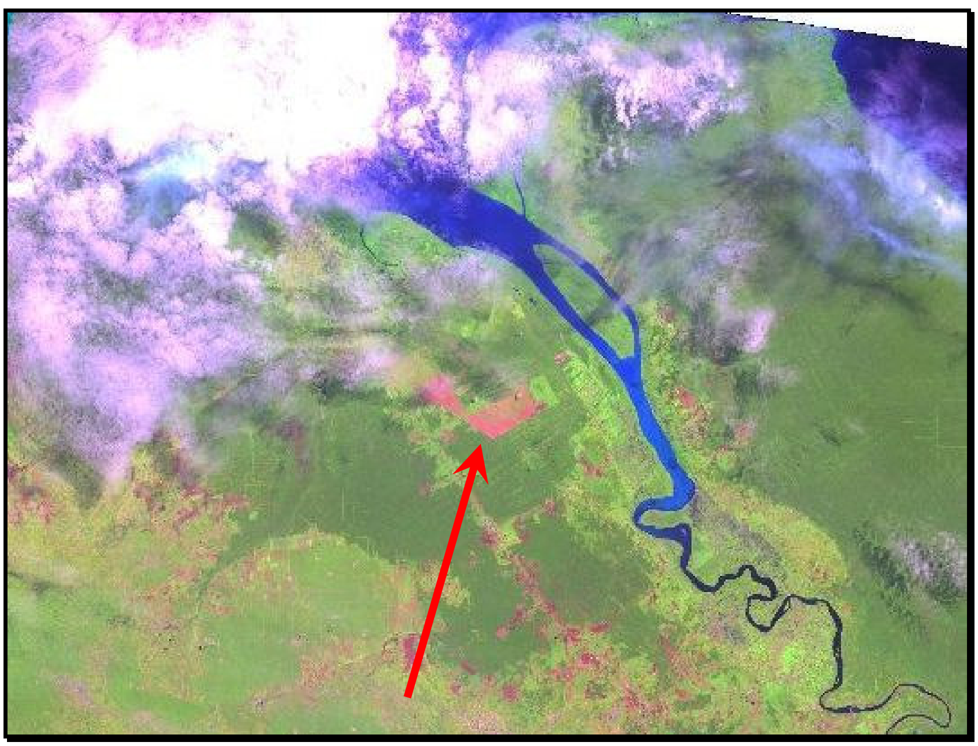


Figure 3. **Satellite image showing the PT Jatim Jaya Perkasa clearings (in pink) in 2000** [14]

Sometime in the late 1990s, the PT Jatim Jaya Perkasa concession was allocated within the boundaries of the logging concession held by PT Essa Indah Timber (52,000 ha). This development illustrates how logging, oil palm expansion and deforestation are interrelated.[15]

- Wilmar's third party suppliers have also been associated with deforestation. Among them are London Sumatra Group, Sinar Mas Group and Salim Group.[16]

- A third party supplier of Wilmar in Papua New Guinea is the Malaysian owned oil palm company New Britain Palm Oil (NBPO). This company is preparing to expand its plantation estates. NBPO is currently managing over 40,000 ha of oil palm plantation in West New Britain, Papua New Guinea and is looking into the expansion of between 16,000 - 20,000 ha in the Kapuluk and Via Valley, Kove District. The expansion was originally planned for 2004-2005. Surveys and landowner negotiations are presently taking place. All this area is to come under lease-lease back agreements with the local landowners**.** There are some reported land disputes which may cause some delays. It is understood that Niugini Lumber (Rimbunan Hijau from Malaysia) will be contracted to carry out the forestry operations and another contractor will be engaged on the oil palm development.[17]

- **Forest fires**

Many of Indonesia's rampant forest fires of 1997/98, during which time 11.7 million hectares of land were burnt at great economic cost, were caused as a result of plantation companies' land clearing activities. Several of Wilmar's plantation subsidiaries have been associated with (illegal) burning practises:

- PT Tania Selatan in 1997 and 2002 [18]
- PT Bumi Pratama Khatulistiwa in 2000 [19]
- PT Jatim Jaya Perkasa in 2000, 2001 and 2002 [20]

According to one newspaper report, Wilmar Trading claimed in 2000 that illegal settlers were the culprits behind the burning.[21] Another report as of 2001 stated that "despite strong evidence supporting the charges that the company had intentionally set fires in its concession in the province, the owner of oil palm plantation PT Jatim Jaya Perkasa was released by the Dumai District Court".[22] In June 2003, the local branch of the Indonesian Forum for the Environment (Walhi) announced it planned to sue PT Jatim Jaya Perkasa.[23]

The PT Bumi Pratama Khatulistiwa oil palm plantation company in West Kalimantan was subject to police investigations after fires were observed in the PT BPK estates on March 7, 2000. The police charged the plantation manager under the Environmental Protection Act.[24] No information is available about the outcome of the case.

Wilmar's third party suppliers too have been alleged to burn land. Among them:

- PT Kencana Amal Tani, in 2001
- PT Duta Palma Nusantara, in 2001
- PT Astra Agronia, in 2001
- PT Musim Mas, in 2001 [25]
- PT Ivo Mas Tunggal, in 2002 [26]
- Several subsidiaries of the London Sumatra, Sinar Mas and Salim Groups. [27]

- **Social conflicts**

Oil palm development is prone to long lasting and, sometimes, violent conflict between plantation companies and the authorities on the one hand and indigenous peoples on the other. Wilmar's subsidiaries are not exempt from such conflicts and it is unclear how the company handles such problems.

- Wilmar-subsidiaries PT Musi Banyu Asin Indah and PT Tania Selatan are among the approximately 50 plantation companies in South Sumatra who were entangled in some 156 land rights conflicts with local farmers in 1999.[28]

- The development of estates for Wilmar-subsidiary PT Permata Hijau Pasaman in Nagari Kapa Pasaman in West Sumatra has been subject to intense and violent conflict since April 2000 when police (Polres, Brimob and Polsek) began to intimidate the communities to surrender and abandon their land in order to make way for PT PHP and another palm oil company. Community members and a local NGO that monitored the case reported intimidations, raids, shootings, kidnappings, arrests and torture by the armed forces. In August 2003, police forces ultimately entered the community land to protect the contractors while clearing the land.[29]

- Wilmar's third party suppliers too are entangled in widespread social conflict. Among them Salim Group, London Sumatra Group and Sinar Mas Group.[30]

- On August 25, 2000, a violent incident occurred at the palm oil factory gates of PT Permata Hijau Sawit gates when village leaders from the Panyabungan community came to negotiate at the request of the company manager. The community was discontent with the seizure of 2,000 ha of customary land by PT Damai Nusa Sekawan (DNS), an oil palm plantation company related to PT PHS. Instead of negotiations, one of the village leaders was apprehended in the factory complex by four unknown people who tried to force him into a vehicle. News of this incident quickly spread by word of mouth to the surrounding villages. A crowd gathered outside the PT PHS factory gates and a short while later, the mobile brigade (Brimob) unit arrived at high speed, driving right at the crowd. Afraid of being hit by the vehicles, the crowd began to yell and scream. The members of the Brimob unit aimed arbitrarily into the crowd and shot seven peasants, one of whom died. In the following couple of days, 33 villagers were arrested.[31] Those arrested were not permitted access to lawyers for 3 days. When they did meet the lawyers, the presence of police officers prevented the detainees speaking out. Twelve community members were sentenced to jail terms of between one year and fifteen months.[32]

- **Other issues**

  Wilmar subsidiaries have also been associated with labour conflicts (strikes) and smuggling of palm oil products:

  - In August 1998 the Indonesian MP Priyo Budi Santoso, member of the House of Representatives Commission V for trade and manpower, accused the large palm oil refinery PT Bukit Kapur Reksa (part of the Wilmar group) of smuggling thousands of tons of crude palm oil (CPO) and its derivatives out of the country during 1997 and 1998, to circumvent export taxes and a temporary export ban.[33]

  - In March 2000 thousands of workers on the palm oil plantations of PT Tania Selatan went on strike for three days to demand a bonus in connection with the take-over of the company by the Wilmar Group.[34]
    In March 2003 some 2,500 daily labourers of the same plantation group demonstrated before the regional parliament as they had not received their monthly bonuses for more than a year.[35]

Paragraph 3 Wilmar does not need the IFC to find financing

The IFC describes its added value as follows: "Although IFC lends on market terms, it does not compete with, but rather complements, private capital. IFC invests in projects that meet its investment criteria, but which cannot get financing and/or technical expertise elsewhere on reasonable terms." [36]

There is no evidence to prove that for the proposed guarantee Wilmar is unable to raise capital from the commercial market or from its shareholders. On the contrary:

- In recent years Wilmar Holdings has repeatedly shown to be able to find financing on reasonable terms;
- Wilmar Holdings has solid shareholders with a high creditworthiness, who have no problem in finding financing on reasonable terms;

Below we elaborate on both arguments.

- **Creditworthiness of Wilmar Holdings**

  Wilmar Holdings is one of the leading processors and merchandisers of quality edible oils in Asia, with net sales in 2002 of approximately US$ 3.5 billion.[37] Wilmar owns a large number of oil palm plantations and several palm oil mills in Indonesia, as well as five palm oil refineries and four palm kernel crushing facilities in Indonesia and Malaysia with total palm oil refining capacity of 3.3 million tons per annum and palm kernel crushing capacity of 800,000 metric tons per annum. Wilmar claims to be the largest palm oil refiner, palm kernel crusher and specialty fats manufacturer in Indonesia, as well as the largest exporter of palm oil and palm kernel oil and palm kernel expeller and related products in Indonesia.[38]

  In 2003, Wilmar Holdings and Wilmar Trading ranked 16th respectively 20th on the Singapore 1000 list of DP Information Network Group.[39] Wilmar is described as the second-largest edible oils trader in the world.[40]

  Wilmar Holdings and its subsidiaries have in recent years been quite capable of raising substantial volume of commercial capital:

  - In March 2002, Wilmar Holdings obtained a three-year US$ 40 million loan for working capital purposes from an international commercial banking syndicate arranged by OCBC (Singapore) and Rabobank (The Netherlands). Other banks participating in the syndicate were Mizuho Financial Group (Japan), Bumiputra Commerce Bank (Malaysia) and Citigroup (United States).[41]

  - In September 2003, the Indonesian palm oil processing company PT Selapan Jaya, a Wilmar-subsidiary, issued Rp 300 billion (US$ 35.5 million) five-year bonds on the Indonesian capital market. The bond issuance was managed by the commercial financial institution Danareksa Securities (Indonesia).[42]

- **Shareholders of Wilmar Holdings**

  Substantial shareholders of Wilmar Holdings include:[43]

  - Archer Daniels Midland Company (ADM)
  - China National Cereals, Oils and Foodstuffs Import & Export Corporation (COFCO)

- Mr. Kuok Khoon Hong
- Mr. Martua Sitorus

The creditworthiness of ADM and COFCO will be discussed below, as well as the creditworthiness of the Kuok Group. Although mr. Kuok Khoon Hong is officially listed as individual shareholder of Wilmar Holdings, it is generally assumed that mr. Kuok is actually representing the Kuok Group. This Malaysian business group is headed by mr. Kuok's uncle, Tan Sri Robert Kuok Hock-Nien.[44]

- **Creditworthiness of ADM**

Archer Daniels Midland Company (ADM) is a large American food trading and processing company. ADM's operations encompass agricultural producing and consuming regions on six continents, with a global network of agricultural sourcing, processing, transportation and financial services. Headquartered in Decatur, Illinois, the company has over 26,000 employees, more than 270 processing plants and net sales for the fiscal year ended June 30, 2003 of US$ 30.7 billion.[45]
ADM is listed on the NYSE and ranked 133 on the Forbes-500 list in 2003.[46]

To finance its activities and expansion plans, ADM is regularly issuing long-term corporate bonds on the American capital market. The company also has access to a major revolving credit facility, provided by an international banking syndicate. This facility is renewed annually, and had a value of US$ 1,750 million in 1999, US$ 1,250 million in 2000, US$ 1,150 million in 2001 and US$ 900 million in 2002. In March 2002 this facility was arranged by J.P. Morgan Chase & Co. (United States), Bank of America (United States), Commerzbank (Germany), HSBC Bank (United Kingdom) and Citigroup (United States).[47]

Present credit ratings for ADM are as follows:
- Fitch: A+ for its long term debt, which is defined as follows: "capacity for timely payment of financial commitments is considered strong." [48]
- Fitch: F1 for its short term debt, which is defined as follows: "strongest capacity for timely payment of financial commitments." [49]
- Standard & Poor's: A-1, which is defined as follows: "strong capacity to meet its financial commitments." [50]
- Moody's: A1 for its long term debt, which is defined as follows: "upper-medium grade and subject to low credit risk." [51]
- Moody's: P-1 for its short term debt, which is defined as follows: "superior ability to repay short-term debt obligations." [52]

- **Creditworthiness of COFCO**

China National Cereals, Oils and Foodstuffs Import & Export Corporation (COFCO) is one of the largest import and export companies in China and the largest company in the Chinese food sector. COFCO is primarily engaged in the import and export business of cereals, oils and foodstuffs, but also has interests in food production, hotels, packaging, real estate, transportation, financing and warehousing. COFCO's subsidiaries COFCO International and Top Glory International are listed on the Hong Kong stock exchange. In 2003, COFCO ranked 384 on the Fortune Global 500.[53]

Through its American subsidiary COFCO Capital Corporation, COFCO has raised one-year letters-of-credit (L/C) to support a US commercial paper (CP) programme annually from 1998 to 2001. As a sign of its increasing creditworthiness, the company in August 2002 reduced the commission on its new L/C to 42 bp and at the same increased the tenor to three years. Nevertheless the loan - arranged by ING Bank (The Netherlands), Rabobank (The Netherlands) and Standard Chartered (United Kingdom) - became a “roaring success”. No less than 22 banks participated and the loan was increased to US$ 150 million from US$ 100 million, following heavy oversubscription.[54]

Present credit ratings for COFCO’s commercial paper are as follows:

- Standard & Poor’s: A-1+, which is defined as follows: “capacity to meet its financial commitments is extremely strong”.[55]
- Moody’s: P-1, which is defined as follows: “superior ability to repay short-term debt obligations”. [56]

Since this successful refinancing, COFCO signed two new loans with international banking syndicates:

- In December 2002, COFCO Capital Corporation signed a five-year US$ 200 million loan with an international banking syndicate arranged by Bank of China (China), BNP Paribas (France), HSBC (United Kingdom), Industrial and Commercial Bank of China (China), Standard Chartered (United Kingdom) and Société Générale (France). The margin is 48bp over Libor. Proceeds were to refinance a US$ 160 million five year term loan, arranged by Standard Chartered in July 2001, with a margin of 85bp. The facility was increased from US$ 180 million following a strong response from the market.[57]

- In September 2003, COFCO Capital Corporation signed a eight-year US$ 135 million amortising credit with an international syndicate of twelve banks, arranged by BNP Paribas (France), HSBC (United Kingdom) and Société Générale (France). The deal paid a margin of 63bp over Libor. The deal was secured by 13 vessels in COFCO's fleet.[58]

- **Creditworthiness of Kuok Group**

The Kuok Group is a highly diversified Malaysian conglomerate, active in commodities trading, plantations, production of sugar, flour, edible oils and other foodstuffs, shipping, production of chemicals and medical equipment, chemical waste treatment, real estate, hotels, cinemas, recreation clubs, investment, insurance and media (among others the famous South China Morning Post). The Kuok Group has operations in all East Asian countries, Canada and Australia and is trading worldwide. Ten of its subsidiaries are listed on the stock exchanges of Kuala Lumpur (5), Hong Kong (3), Singapore and Manila.[59]

The Kuok Group is controlled by the Kuok family, headed by Tan Sri Robert Kuok Hock-Nien. In the 2003 edition of the Forbes 500 list of richest people in the world, Robert Kuok ranks 97 with an estimated personal wealth of US$ 3.4 billion.[60] The Malaysian magazine Malaysian Business estimates his wealth at RM 8.01 billion (US$ 2.36 billion) and puts him second on the list of richest people in Malaysia.[61]

One of the companies belonging to the Kuok Group is PPB Oil Palms Berhad, which is listed on the Kuala Lumpur stock exchange. In Indonesia PPB Oil Palms Berhad owns a total land bank of 57,927 hectares as well as a CPO mill in Sumatra. CPO and palm kernels are shipped to the palm oil refineries and palm kernel crushing plants of PGEO Group Sdn. Bhd. in Malaysia.[62]
In January 2004, Robert Kuok acquired a 47.23% stake in PT Pan London Sumatera Plantation, one of Wilmar’s Indonesian suppliers of Crude Palm Oil. [63] This company is the majority shareholder in PT PP London Sumatra Indonesia TBK., one of Indonesian major oil palm plantation groups with a total concession area of 225,100 hectares. [64]

Through its various subsidiaries the Kuok Group has successfully raised substantial amounts of commercial capital. A few examples:

- In August 2001 Kerry Holdings, the Hong Kong-based property unit of the Kuok Group, raised a HK$ 4.5 billion (US$ 578.9 million) five year term loan for working capital purposes. The loan was arranged by Bank of China (China), Industrial and Commercial Bank of China (China), Sumitomo Mitsui Banking (Japan), BNP Paribas (France), DBS Bank (Singapore), Hang Seng Bank (Hong Kong) and HSBC (United Kingdom).[65]

- In December 2003 Malaysian Bulk Carriers, a shipping subsidiary of the Kuok Group transporting palm oil, grains, sugar and other commodities, was listed on the Kuala Lumpur Stock Exchange (KLSE). The IPO was a major success, with a 48% price increase in the first trading day. Singapore-based Pacific Carriers Ltd., the shipping arm of the Kuok Group, retains a 34.46% share which increased in value accordingly.[66]

- In February 2004 Shangri-La Asia, the regional hotels group controlled by the Kuok Group, tapped capital markets for US$ 375 million. The company offered US$ 200 million in zero-coupon convertible five-year bonds and US$ 175 million in new shares to raise funds for expansion in China. J.P. Morgan Chase & Co. (United States) was the sole book-runner.[67]

Paragraph 4 Conclusions and recommendations

Based upon the information and arguments presented in the preceding paragraphs, we conclude that the IFC Board should not to approve the project, for three reasons:

- The standard operational procedure applied by IFC's Environment Department by which trade related services are categorised as *Category C*, should be revised in view of the possible on-the-ground impacts of trading activities like Wilmar's. It is beyond argument that the Indonesian oil palm plantation subsidiaries of the Wilmar Group and its third party suppliers in Indonesia benefit directly from Wilmar's trading activities. It is also generally acknowledged that oil palm operations may have significant adverse impacts on the environment and on local communities. Wilmar's trading activities should therefore be categorised as *Category A* or *Category B*.

- Despite of the lack of transparency of the Wilmar Group and the absence of any environmental and social assessment of its operations, there is ample evidence suggesting that Wilmar's Indonesian oil palm plantation subsidiaries as well as its third party suppliers indeed cause significant adverse impacts on the environment and on local communities. Its subsidiaries and suppliers are alleged to have been involved in conversion of sensitive habitats, illegal activities (burning) and violent social conflict. The company is not transparent to the general public and it does not appear to have a consistent plantation development and management policy or purchasing policy that addresses environmental or social concerns. Therefore, it is likely that Wilmar will continue to be entangled in sensitive issues during the currency of the proposed project. Requiring Wilmar to comply with IFC's *Environmental and Social Guidelines* is meaningless because by categorizing the project as *Category C* the IFC will not have the necessary information or the required tools to ensure that Wilmar will comply with these guidelines.

- There is no evidence to prove that Wilmar needs the IFC funding as the company has attracted ample commercial capital in recent years. Furthermore, Wilmar Holdings has very strong shareholders with a high creditworthiness, who should be quite capable of guaranteeing the US$ 50 million loan. If the IFC Board were to decide to approve the proposed guarantee, the IFC would use public funds to compete with private capital. This is against the IFC's primary objectives.

Indonesia is in need of trade financing and investments and the IFC could play a very important role in this respect. But the IFC at the same time wants to assure that its clients meet its *Environmental and Social Guidelines*. It is hard to see how these two goals will be met if no proper Environmental Assessment takes place. A trade credit guarantee will stimulate Wilmar to continue expanding and, especially without a thorough Environmental Assessment and associated follow up requirements, the impacts of this expansion are likely to be far more sensitive than an IFC investment in an individual plantation company. Wilmar's operations are particularly sensitive in terms of:

- **the type of operations**: plantation development for which the IFC has special guidelines;
- **the location**: tropical forest and peat swamp areas as well as lands on which indigenous people depend for which the World Bank has guidelines;
- **the scale**: through its own shareholdings, Wilmar owns at least 76,000 ha of plantation land while through its third party suppliers and through trading partners it influences a much larger area.

Based on these conclusions, we make the following recommendations to the IFC:

- The type, location and scale of Wilmar's operations necessitate a full environmental and social assessment, before committing any IFC financing. This implies categorizing the project as *Category A* or *Category B*.
- The IFC's Environment Department should revise its standard operational procedure to categorise trade-related financing as *Category C*, in view of the possible on-the-ground impacts of trading activities like Wilmar's.
- The IFC should make clear with which tools it will ensure that clients like Wilmar will comply with the *IFC Environmental and Social Guidelines*.
- If the IFC wishes to promote exports and sustainable development in the oil palm sector, it should seek to help small to medium-sized Indonesian companies and independent plantation owners to attract financing, in order to assist them in improving productivity and management of *existing* plantations.
- The IFC should draw up a oil palm policy to define which kind of companies in this sector are eligible for IFC support, under which conditions.

Appendix 1 Wilmar Trading - Summary of Project Information (SPI)

Project number 20348
Project name Wilmar Trading
Country Indonesia
Sector Agriculture And Forestry
Department Agribusiness
Company name Wilmar
Environmental category C
Date SPI disclosed November 6, 2003
Projected board date December 9, 2003
Status Pending Approval

Project sponsor and major shareholders of project company

Wilmar Holdings (Wilmar Group or the company) is one of the leading processors and merchandisers of quality edible oils in Asia with net sales in 2002 of approximately $3.5 billion. Its primary business activities include:

- Refining crude palm oil and fractionating refined palm oil into other palm-based products;
- Crushing oilseeds into meals, edible oils and their derivative products;
- Refining soybean and other edible oils;
- Merchandizing and distributing edible oils, oilseeds, oilseed meals and their derivative products;
- Cultivating and harvesting oil palm trees and processing fresh palm fruit bunches into crude palm oil and palm kernel.

Wilmar Group was established in 1991 to trade palm oil and palm products in Singapore and Indonesia. The business then expanded into processing and manufacturing of edible oils and derivative products in Indonesia and China. It also began investing and developing oil palm plantations in 1992. The group's substantial shareholders include Mr. Kuok Khoon Hong, Mr. Martua Sitorus, Archer Daniels Midland Company (ADM), and China Cereals, Oils and Foodstuffs Import and Export Corporation (COFCO).

Total project cost and proposed IFC investment

IFC would provide a partial guarantee for up to $33.3 million for a pre-shipment finance facility of up to $50 million extended by a commercial bank. This financing package will be in the form of a committed facility, renewable annually for a maximum of three years.

Location of project and description of site

Wilmar Trading is located in Singapore, and Wilmar Group's major palm oil refineries and plantations are located respectively in Dumai, Palembang, Kuala Tanjung, Bitung and Sumatra of Indonesia.

Description of company and purpose of project

The project is intended to enable Wilmar Trading to scale up its offtake of crude palm oil (CPO) from palm oil plantations in Indonesia and process them into refined oil. Wilmar Trading is the merchandising and trading arm of Wilmar Holdings, a leading processor and merchandiser of oilseeds and edible oil in Asia.

IFC's support would facilitate Wilmar Trading to finance its 2003/2005 export program and allow continued sustainable long-term growth in a sector where Indonesia has a strong comparative advantage.

Environmental and social issues - Category C

This is a category C project according to IFC's environmental and social review procedure. A proposed project is classified as Category C if it is likely to have minimal or no adverse environmental impacts. Beyond screening, no further EA action is required for a Category C project.

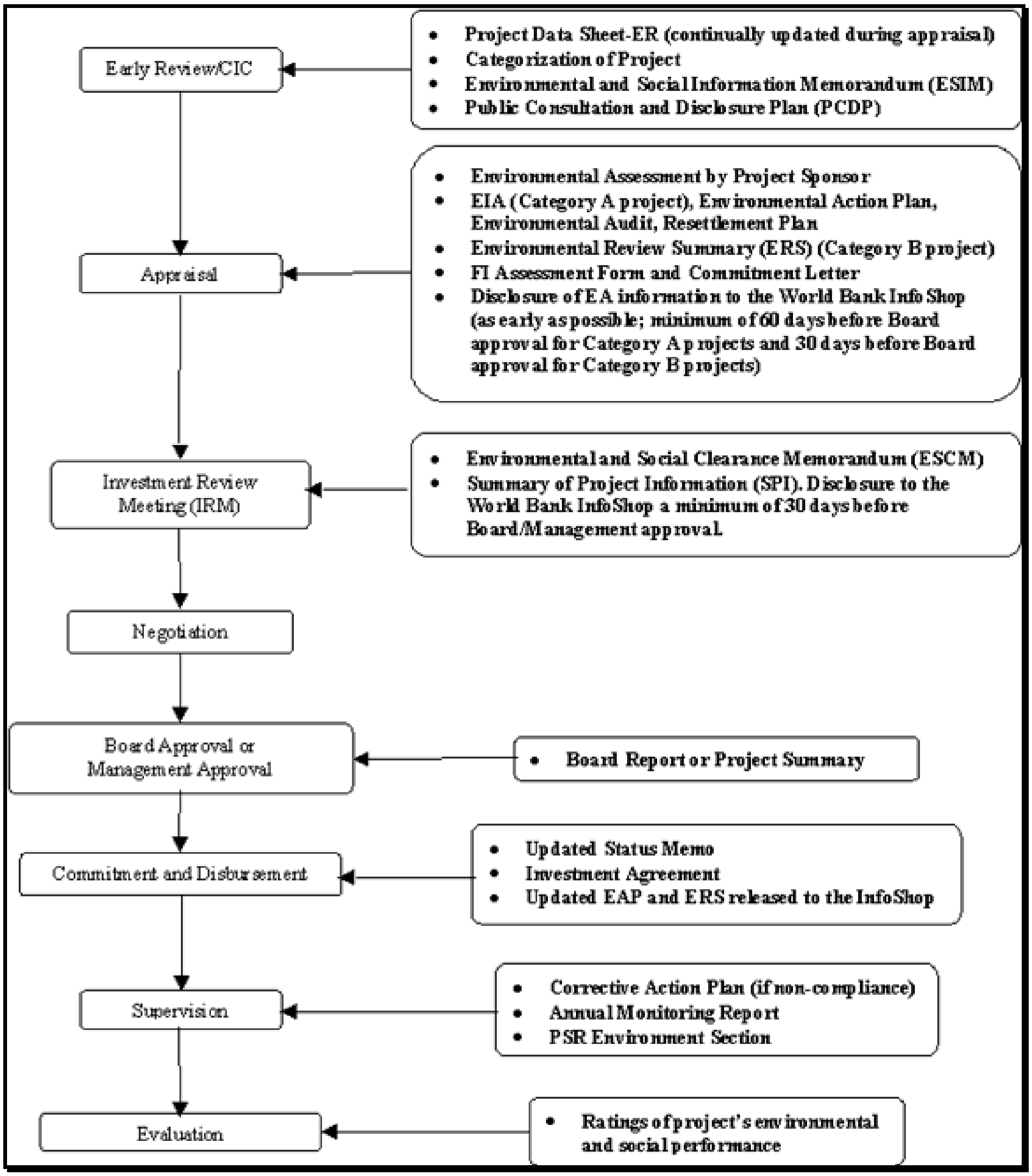
To contact the project company, please write to:
Chua Phuay Hee, Director 56 Neil Road, Singapore 088830 Phone: (65) 6216 0189 Fax: (65) 6223 6635

Source: Website IFC (www.ifc.org), Viewed in February 2004.

Appendix 2 IFC Environmental & Social Review Procedure

Introduction

IFC's environmental and social review procedure outlines the process by which IFC determines the adequacy of the project sponsor's environmental assessment for a proposed project and works with the project sponsor to address environmental and social issues and opportunities associated with the project. The purpose of the environmental and social review is to ensure that the project complies with applicable IFC environmental and social polices and meets the applicable guidelines. In sectors where no appropriate IFC policies or guidelines exist, IFC applies internationally recognized standards. The project sponsor must ensure compliance with host country requirements. The following sections describe who has responsibility for the various steps in the review process and then details each of the steps. The figure below depicts the steps in the process.



Purpose and Nature of Environmental Assessment (EA)

The purpose of an environmental assessment (EA) is to improve decision making and to ensure that the project under consideration is environmentally and socially sound and sustainable. Environmental and social consequences should be recognized early in the project cycle and taken into account in project selection, siting, planning, and design. EA identifies ways of improving a project environmentally and socially and (in order of priority) preventing, minimizing, mitigating, or compensating for adverse impacts as appropriate for individual projects. These steps help avoid costly remedial measures. By calling attention to environmental and social issues early and by involving stakeholders in meaningful consultations, EA (a) allows a project sponsor and IFC staff to address these issues in a timely and cost-effective fashion; (b) reduces the need for project conditionality because appropriate steps can be taken in advance or incorporated into project design, or alternatives to the proposed project can be considered; and (c) helps avoid costs and delays in implementation due to unanticipated problems. EA can provide a mechanism for coordination between the project sponsor and relevant government agencies on environmental and social issues and for addressing the concerns of affected groups and local interested parties. In addition, EA plays an important role in building the environmental and social management capability of the project sponsor.

EA is the responsibility of the project sponsor. Early start of the EA process and close integration of EA with other aspects of project preparation and early start of the EA process ensure that (a) environmental and social considerations are given adequate weight in project selection, siting, and design decisions; and (b) the review process does not delay project processing.

Social Review

The general requirement to address social issues during the EA process is contained in OP 4.01, Environmental Assessment. Specific policy requirements are contained in OP 4.10, Indigenous Peoples (forthcoming); OP 4.11, Safeguarding Cultural Property in IFC-Financed Projects (forthcoming); and OP 4.12, Involuntary Resettlement (forthcoming). Where projects have the potential to result in significant and diverse social impacts, IFC will collect information on the potential social impacts of the proposed project and consider these issues as part of its project appraisal process. In some situations, however, the magnitude and complexity of social issues go beyond the scope or responsibility of the private sector and fall within the domain of government. IFC recognizes the importance and sensitivity of the project sponsor-government relationship in addressing such issues. Given the variations among countries, sectors, and individual projects, the interface between the private and public sectors on these issues is best addressed on a case-by-case basis.

IFC Responsibility

Environmental and social review involves a broad range of environmental, social, technical, commercial and legal issues and requires input from various members of the project team. The Investment Department has line responsibility for overall performance of a project, including its environmental and social performance. Environmental and social development specialists and technical specialists in the Technical and Environment Department provide specialized support on environmental and social matters to the project team and project sponsor.

The Environment Division is responsible for the environmental and social review of projects, including formal clearance of projects from an environmental and social standpoint. The Environment Division, utilizing its best professional judgment, assesses whether each project will comply with applicable policies and meet the applicable guidelines, coordinates with the

World Bank as necessary, and makes the Investment Department aware of any issues that are not in conformity with these requirements. The formal clearance from the Environment Division states that, based on the information reviewed, the project, if implemented as designed and operated accordingly, will comply with applicable IFC policies and meet the applicable guidelines. The formal clearance does not certify the project's performance against host country requirements. The technical specialist provides support to the Investment Departments, the Environment Division and the project sponsor on technical matters, including technical aspects of environmental performance, as appropriate. The lawyer provides support on legal matters, including drafting the environmental and social language provisions in the project's legal documentation.

The Investment Department Director is responsible for the decision to proceed with a project, based on the results of the appraisal, provided that environmental and social clearance has been received from the Environment Division. Where environmental and social issues are outstanding after appraisal, the Vice President, Investment Operations in consultation with the Vice President with corporate responsibility for environmental issues, the Technical and Environment, Legal and Investment Departments, determine whether or not these issues have been addressed sufficiently that the project should be approved.

Early Review

At the earliest possible stage, the Investment Department forwards a copy of the PDS to requests the Environment Division to ensure early notification of a project allocate specialists to a proposed project. It is beneficial to the project sponsor and IFC for the Environment Division to provide guidance on environmental and social requirements at the earliest possible opportunity. A project sponsor can request such guidance in advance of an investment mandate and IFC may provide such guidance under properly established terms and conditions. As soon as the Investment Department decides that a project will proceed, the investment officer and technical specialist provide the PDS-ER and any other relevant information to the Environment Division and request in writing initial project screening and preparation of the Environmental and Social Information Memorandum (ESIM). The Environment Division also completes the appropriate sections of the PDS-ER. These sections may undergo significant revisions if preliminary information is scant, and the Environment Division may change the category as new information is received. Investment Officers should encourage project sponsors to contact the assigned environmental and social specialists early in the process to discuss issues of concern. Note: staff of the Environment Division use the Environmental and Social Questionnaire (ESQ) to source information from the project sponsor as early as possible in the process and use this collected information in classifying the project and identifying environmental and social issues of concern.

Project Screening

The purpose of project screening is to decide on the nature and extent of the environmental assessment needed for the project. Projects are categorized by the Environment Division into environmental review category A, B, C, or FI in accordance with IFC's OP 4.01, Environmental Assessment. Projects are categorized into four environmental review categories, depends on the type, location, sensitivity, and scale of the project as well as the nature and magnitude of its potential impacts.
"Location" refers to proximity to or encroachment on environmentally sensitive areas, such as mangroves, wetlands, and rain forests. "Scale" needs to be judged by the environmental and social specialist in the project context; if large, the project is more likely to be a Category A project.
IFC uses four categories for its projects. They are defined as follows:

- **Category A**: A proposed project is classified as Category A if it is likely to have significant adverse environmental impacts that are sensitive,77 .A potential impact is considered "sensitive" if it may be irreversible (e.g., lead to loss of a major natural habitat), affect vulnerable groups or ethnic minorities, involve involuntary displacement and resettlement, or affect significant cultural heritage sites. diverse, or unprecedented. These projects may affect an area broader than sites or facilities subject to physical works. EA for a Category A project examines the project's potential positive and negative impacts, compares them with those of feasible alternatives (including the "without project" scenario), and recommends any measures needed to prevent, minimize, mitigate, or compensate for adverse impacts and to improve performance. For a Category A project, the project sponsor is responsible for preparing a full report, normally an Environmental Impact Assessment (EIA) and for preparing and updating an Environmental Action Plan (EAP).

- **Category B**: A proposed project is classified as Category B if its potential adverse environmental impacts on human populations or environ-mentally important areas - including wetlands, forests, grasslands, and other natural habitats - are less adverse than those of Category A projects. These impacts are site-specific; few if any of them are irreversible; and in most cases mitigation measures can be designed more readily than for Category A projects. The scope of EA for a Category B project may vary from project to project, but it is narrower than that of EA for a Category A project. Like Category A EA, it examines the project's potential positive and negative impacts and recommends any measures needed to prevent, minimize, mitigate, or compensate for adverse impacts and improve environmental performance. The project sponsor is responsible for providing the required environmental and social information. The findings and results of Category B EA are described in the project documentation (i.e. Environmental Review Summary). When the screening process determines, or national legislation requires, that any of the environmental and social issues identified warrant special attention, the findings and results of EA for Category B projects may be set out in a separate report. Depending on the type of project and the nature and magnitude of the impacts, this report may include, for example, a limited environmental impact assessment, an environmental mitigation or action plan, an environmental audit, a limited resettlement plan, a limited indigenous peoples action plan, or a hazard assessment. For Category B projects that are not in environmentally sensitive areas and that present well-defined and well-understood issues of narrow scope, IFC may accept alternative approaches for meeting EA requirements: for example, environmentally sound design criteria, siting criteria, and pollution standards, acceptable to IFC, for small and medium-scale industrial plants; environmentally sound design criteria, siting criteria, and construction standards, acceptable to IFC, for small and medium-scale agribusiness and agricultural projects; and specific environmental and social siting and design criteria, construction standards, fire and life safety requirements, and inspection procedures, acceptable to IFC, for tourism projects.

- **Category C**: A proposed project is classified as Category C if it is likely to have minimal or no adverse environmental impacts. Beyond screening, no further EA action is required for a Category C project.

- **Category FI**: A proposed project is classified as Category FI if it involves investment of IFC funds through a financial intermediary in subprojects that may result in adverse environmental impacts. In addition, in some capital financial markets projects IFC funds are not targeted to specific subprojects (e.g. equity in a financial institution such as a commercial bank), but the financial institution has operations which may have adverse environmental impacts (e.g. project finance). In such cases IFC may also classify the project as Category FI. If subprojects potentially result in minimal or no adverse environmental impacts, the project is characterized as C.

Annex B contains additional procedural requirements on project categorization, while Annex C further specifies the appropriate Environmental Assessment (EA) tools. Annexes D and E contain procedural requirements related to EA for large dams and reservoirs and EA for projects involving pest management, respectively. Due to the variety of FI projects encountered and the complexity of many of these projects, detailed procedural requirements for categorizing FI projects and assessing their requirements are set forth in Annex F. Contents of a resettlement plan are specified in Annex A to OP 4.12, Involuntary Resettlement. A Glossary of Terms is presented at the end of the Annexes.

A number of Guidance Notes are provided to assist IFC staff and project sponsors during the EA process. Guidance Note A provides a checklist that can be used to identify potential issues during preparation of an EIA. Guidance Notes B, C and D provide outlines of an EIA for a Category A project, an Environmental Action Plan (EAP), and an environmental audit, respectively. Guidance Note E provides an outline of a project specific major hazard assessment. Finally, Guidance Note F contains best practice guidance for preparation of a Public Consultation and Disclosure Plan (PCDP). The requirements for a Resettlement Plan are contained in an Annex in OP 4.12, Involuntary Resettlement.

Environmental and Social Information Requirements

Upon receipt of the PDS, the Environment Division issues an ESIM to the investment officer (and to the technical specialist), documenting the following:

- the category of the project and the rationale for the categorization;
- the major environmental and social concerns that have been identified or may be associated with the project;
- the draft of the environmental language for the PDS and the MOR;
- the details of the environmental and social information required from the project sponsor to enable the Environment Division to complete the review process;
- typical standards for a project of this type (e.g., IFC's environmental and social policies, applicable guidelines, host country requirements and/or internationally recognized standards) which will be applied in reviewing the project; and
- for a Category A project (and category B projects where there are small scale resettlement and/or pest management issues), a general outline of the project's public consultation and disclosure plan for inclusion in the PDS as well as details of the requirement for the project sponsor to prepare a detailed Public Consultation and Disclosure Plan (PCDP) for the project. The project sponsor is responsible for preparing the PCDP, with guidance provided by the Environment Division. A preliminary PCDP must be submitted to the Environment Division for review and approval as soon as possible and in advance of the appraisal mission. On approval of the PCDP by the Environment Division, the Investment Department submits the PCDP to the Investment Policy Committee for their review and approval. During project appraisal the PCDP is periodically updated and any significant changes, after Environment Division approval, are brought to the attention of the Investment Policy Committee by the Investment Department.

The Environment Division must have sufficient information on the environmental and social aspects of a project to allow for proper project screening and preparation of the ESIM. In most cases, an Environmental and Social Questionnaire (ESQ) will be sent to sponsors for completion and return. The ESQ provides information to allow environmental and social specialists to undertake a basic evaluation of the sponsor's environmental capabilities and to assist in defining a detailed scope of work for the appraisal stage. If insufficient information is available, or if during the project appraisal significant additional issues are identified, the Environment Division may re-evaluate the category of the project as well as the relevant information requirements. Investment Officers should encourage project sponsors to contact the assigned environmental and social specialists early in the process to discuss issues of concern.

Following authorization for appraisal, the investment officer sends environmental and social language requirements (provided in the ESIM) to the Controller's and Budgeting Department for inclusion in the MOR. This information includes the project category, the rationale for the categorization, and a summary of the environmental and social issues associated with the project. Information is thereby provided to IFC's Board of Directors on relevant issues as early as possible in IFC project cycle.

Project Appraisal

Early project screening and identification of environmental and social information requirements ensure that the project sponsor can provide the information in a timely and cost-effective manner and that these issues can be addressed during the project appraisal process without delaying the project processing cycle. Upon receipt of the ESIM, the investment officer, in consultation with the technical, environmental, and social development specialists, as appropriate, communicates in writing the relevant information requirements and the general requirements of this procedure to the project sponsor. This includes the requirement for public release of environmental information (including information related to the public consultation process). Copies of IFC's applicable policies, guidelines and guidance documents such as Doing Better Business Through Effective Public Consultation and Disclosure: A Good Practice Manual are also sent to the project sponsor.

It is the project sponsor's responsibility to prepare and submit the necessary environmental information to IFC for review during project appraisal. The Environment Division, in coordination with the investment officer, can provide guidance to the project sponsor to ensure that this activity is completed in a responsive manner. The length of time required for the environmental and social review depends on the completeness of the information provided by the project sponsor, the overall complexity of the project, and potential impacts on the physical, biological and human environment.

In exceptional circumstances where a Category A project is highly risky or contentious, or involves serious and multidimensional environmental and social concerns, IFC normally requires the project sponsor to engage an advisory panel of independent, internationally recognized environmental specialists to advise on all aspects of the project relevant to the EA, including during project implementation.

Review of environmental and social information provided by the project sponsor normally occurs during project appraisal, although it may occur earlier in IFC's project cycle if the information is available. During the review, data gaps or other deficiencies in the project sponsor's environmental assessment may be identified in the documentation. In addition, questions or concerns about the environmental and social information may arise. In these cases, the environmental specialist and social development specialist, where appropriate and in consultation with the investment officer, contacts the project sponsor to seek clarification or additional information.

During the environmental and social review, IFC works with the project sponsor to enhance project benefits or correct any deficiencies. The review of a project is an interactive process requiring communication between the Investment Department, the Technical and Environment Department, the Legal Department, and the project sponsor. Specific activities associated with the review process depend on the category of the project as follows:

Category A Projects

- Visit to the project site by one or more Environment Division staff or an IFC selected consultant to gain first hand knowledge of the project and to meet with the project sponsor and representatives of affected groups to discuss environmental and social concerns and information needs, to explain public consultation and disclosure requirements, and to determine the issues which must be addressed in the EIA.
- Desk review by IFC of the EIA report provided by the project sponsor and other relevant information provided by the project team.

Category B Projects

- Desk review by IFC of environmental and social information provided by the project sponsor and the project team. A site visit may be required by a member of the Environment Division or an IFC consultant depending on the complexity of the project.

Category C Projects

- No further environmental review required.

Category FI Projects

- Verification that the financial intermediary will be capable of and committed to meeting IFC requirements. See Annex F for procedures for FI projects.

Expansions, Modernizations and Retrofits

In plant expansion and modernization projects, the entire plant (existing and proposed new facilities) undergoes an evaluation of environmental and social issues. Any new facilities or investments financed by IFC must conform to applicable IFC policies and meet applicable guidelines. In addition, IFC usually requires the project sponsor to retain an independent consultant to complete an environmental audit of the existing plant and may require the project sponsor to undertake programs to bring the existing plant into compliance with applicable IFC policies and meet applicable guidelines within a reasonable time frame (see Annex C for more details).

Privatizations

For privatization projects, IFC usually requires the project sponsor to retain an independent consultant to complete an environmental audit of the facilities. Depending on the results of the audit, IFC makes recommendations and may require the project sponsor to agree on programs to bring the facilities into compliance with applicable IFC policies and meet applicable guidelines within a reasonable time frame. If new facilities are also involved, the new facilities financed by IFC must comply with applicable IFC policies and meet applicable guidelines (see Annex C for more details). Where privatization is expected to result in significant social and economic impacts due to loss of direct and indirect employment and/or impacts on the provision of basic social services, IFC may require the collection of information on the social impacts of the privatization. These issues will be considered during appraisal of the project, in accordance with the principles set forth in para 17 above (Social Review).

Corporate Investment Programs

For investments in general corporate activities, the overall environmental and social performance of the project sponsor is assessed, and, if necessary, recommendations made to strengthen and improve the corporate environmental management system. In this regard, IFC may require the project sponsor to complete an environmental audit by an independent consultant and to discuss and agree with IFC on programs to achieve, within a reasonable time frame, compliance with applicable IFC policies and meet applicable guidelines (see Annex C for more details).

Financial Intermediary (FI) Operations

Financial intermediary operations involve a broad range of financial institutions and financial products. The requirements for a particular project depend on the type kind of financial institution and financial products involved. Requirements are set forth in three "tiertypes" as outlined in Annex F, which provides detailed information about how the requirements are applied to various types of Category FI projects. When IFC funds are not directly targeted to specific subprojects but support a financial institution whose investments may have adverse environmental impacts, IFC focuses on the process of environmental management in the institution. When IFC funds are targeted to specific subprojects through the financial institution, IFC focuses on both the process and the subprojects.

Public Consultation and Disclosure

Public Consultation

During the EA process for Category A projects and for Category B projects where deemed appropriate by IFCthere are special issues of concern, such as small scale resettlement or pest management issues, the project sponsor is required to conduct meaningful consultation with relevant stakeholders including affected groups, nongovernmental organizations (NGOs) and local authorities about the project's environmental and social aspects and take their views into account. The project sponsor initiates such consultations as early as possible. For meaningful consultations, the project sponsor provides relevant information in a timely manner and in a form and language that are understandable and accessible to the groups being consulted. For Category A projects, these actions, and future consultations to be undertaken during the construction and operation of the project, are incorporated into a public consultation and disclosure plan (PCDP) (see Guidance Note F). All project sponsors should consult IFC's Doing Better Business Through Effective Public Consultation and Disclosure: A Good Practice Manual. This Manual provides guidance on effective public consultation and disclosure for the private sector.

For Category A projects, the project sponsor consults relevant stakeholders at least twice: (a) during scoping and before the terms of reference for the EA are finalized, and (b) once a draft EA report is prepared. For the initial consultation, the project sponsor provides a summary of the proposed project's objectives, description, and potential impacts; for consultation after the draft EA report is prepared, the project sponsor provides a non-technical summary of the report's findings. In both cases, the summaries should be provided in advance of consultation and proactively disseminated to local stakeholders in a form and language meaningful to those being consulted.

Following the public consultation on the draft EA, the project sponsor supplements the EA by adding details of the public consultation process, as necessary, including the project sponsor's responses to concerns raised by the various stakeholders and details of measures taken to incorporate these concerns into project design and implementation.

The project sponsor continues to consult with relevant stakeholders throughout project construction and operation, as necessary, to address EA related and other issues that affect them. IFC requires the project sponsor to report on ongoing consultation as part of its annual reporting requirements.

In those cases where the Category A EA has been completed prior to IFC involvement in the project, the Environment Division reviews the public consultation and disclosure activities carried out by the project sponsor during and after EA preparation. If necessary the Environment Division and project sponsor then agree on a supplemental public consultation and disclosure plan (PCDP) to address any identified deficiencies. The supplemental PCDP must be submitted to the Environment Division for review and approval as soon as possible and in advance of the appraisal mission. On completion of this program, the project sponsor prepares a report detailing the additional work undertaken and the results achieved. The Category A EA will only be considered complete and made available to the World Bank InfoShop once the report on additional work is complete.

For Category B projects IFC may determine that there are special issues of concern, such as small-scale resettlement or pest management issues, that require the project sponsor to consult early in the project cycle with potentially affected stakeholders.

Disclosure of Information

For Category A projects the project sponsor gives public notification and makes the draft EA report available at a public place readily accessible to project stakeholders as early as possible and no later than 60 days prior to Board consideration (regular procedure), Closing Date (streamlined procedure), or management approval date (delegated authority). This document should include all supplements and addenda to the EA report requested by IFC and the responses to the public consultation process. In addition, a non-technical EA report summary in the local language shall be proactively disseminated to local stakeholders. With the project sponsor's consent, IFC releases the EA report to the public through the World Bank InfoShop as early as possible and no later than 60 days prior to Board consideration (regular procedure), Closing Date (streamlined procedure), or management approval date (delegated authority). The 60 day period commences only when IFC determines that all relevant information requested from the project sponsor has been provided to IFC and placed in the World Bank InfoShop. Such release does not constitute IFC endorsement of the project. If the project sponsor objects to IFC releasing this information through the World Bank InfoShop, IFC staff do not continue work on the project. Once the project sponsor officially provides a Category Aan EA report to IFC, IFC distributes the summary (in English) to the members of IFC's Board of Directors. In addition, IFC may require disclosure of addenda which document significant consultation post-EA report release, but this would not re-start the 60 day period. For FI operations involving investment of IFC funds directly in specific subprojects, the FI ensures that EA reports for Category A subprojects are made available in a public place readily accessible to affected groups and local NGOs.

For Category B projects, on completion of IFC's review of the project sponsor's environmental analysis, the Environment Division prepares an Environmental Review Summary (ERS) which contains a project description, the rationale for the project categorization, the list of key environmental, social, health and safety issues, details of the mitigation measures to bring the project into compliance with IFC's requirements, an outline of any outstanding issues and information on the project's monitoring and reporting program to ensure compliance. After endorsement by the project sponsor, the Investment Department releases this ERS as well as the results of any consultations required by IFC for Category B projects with special issues (see paragraph 42), to the World Bank InfoShop no later than 30 days prior to Board consideration (regular procedure), or Closing Date (streamlined procedure), or management approval date (delegated authority). If the project sponsor objects to IFC's releasing the ERS or consultation results through the World Bank InfoShop, IFC staff do not continue work on the project. Since project affected people may not have reasonable access to a World Bank or IFC office, the sponsor is also required to release locally the ERS (as amended by IFC if necessary), and the results of any consultations required by IFC, translated into the local language, in a culturally appropriate manner, to facilitate awareness by relevant stakeholders that the information is in the public domain for review. This local release should occur no later than 30 days prior to Board consideration (regular procedure), or Closing Date (streamlined procedure), or management approval date (delegated authority). For example, if a Category B project requires preparation of a limited resettlement plan, this plan must be prepared in accordance with the requirements of OP 4.12, Involuntary Resettlement (forthcoming), including local consultation and disclosure. In addition, IFC releases the resettlement plan to the World Bank InfoShop and the project sponsor releases it locally no later than 30 days prior to Board consideration. (regular procedure), Closing Date (streamlined procedure), or management approval date (delegated authority). IFC's Vice President, Investment Operations may, in rare and compelling circumstances, issue a waiver in writing of the 30 day period.

After completion of the appraisal, the Department Director holds an Investment Review Meeting (IRM) to review the recommendations of the project team and the updated PDS-ER, and to discuss outstanding issues. The Investment Department management prepares a Summary of Project Information (SPI). The SPI provides a brief factual summary of the main elements of the evolving project for disclosure to the public through the World Bank InfoShop. After the project sponsor's approval of the SPI, the Investment Department transmits it to the World Bank InfoShop a minimum of 30 days prior to Board consideration (regular procedure), or Closing Date (streamlined procedure), or management approval date (delegated authority), as described in detail in IFC's Disclosure Policy. IFC's Vice President, Investment Operations may, for compelling business reasons, issue a waiver in writing of the 30 day period. The Environment Division prepares the section of the SPI entitled "Environmental Category and Issues." It describes the environmental category for the project, provides a brief summary of any environmental and social issues, and sets out the mitigation measures designed to address those issues.

Environmental and Social Clearance Memorandum

Prior to Management Approval of the Investment Review Meeting for the project and upon determination satisfaction that the project will can comply with the applicable IFC policies and meet the applicable guidelines, the Environment Division issues the Environmental and Social Clearance Memorandum (ESCM) to the Investment Department. The ESCM clears the project for Board consideration and details outstanding issues as well as the actions required to address those issues. Project monitoring and reporting requirements are also identified, as are other obligations of the project sponsor. The Investment Officer conveys these requirements to the project sponsor. The Environment Division also prepares a summary of the findings of the environmental and social review for inclusion in the Decision Memorandum and for the ERS.

Project Board Approval

After issuance of the ESCM and when all issues have been satisfactorily addressed, IFC management approves the project. Upon approval, management approves the project at the Investment Review Meeting, the Environment Division prepares an outline of the findings of the environmental and social review for inclusion in the report to the Board, including the project category, major environmental and social issues and mitigation measures, other appropriate details, and a statement regarding compliance of the project with relevant requirements.

Investment Agreement

After project approval, the investment officer, in consultation with the lawyer and environmental and social development specialists, ensures that environmental and social requirements are reflected in IFC legal documentation for the project. The investment agreement contains covenants which require the project company to comply with IFC and host country requirements. Annexes to the investment agreement include applicable IFC policies and guidelines, as appropriate. In addition, the investment agreement stipulates that the project company must, no later than 90 days after the end of the company's fiscal year, submit annual environmental monitoring and performance reports to IFC, in a format agreed by IFC. For Category A projects, the investment agreement requires the project company to comply with the requirements described in the agreed Environmental Action Plan (EAP). IFC also requires that the annual environmental monitoring and performance reports for Category A projects be completed or verified for completeness and accuracy by an independent consultant acceptable to IFC.

Revision to the Environmental Action Plan and Environmental Review Summary

For Category A projects, the Environmental Action Plan (EAP) (see Guidance Note C for a detailed outline of an EAP) is an essential and critical part of the EA report and must be included as a part of the draft EA report that is released locally for public consultation. After release of the EA report to the World Bank InfoShop, the project sponsor updates the EAP to reflect the final understandings on environmental and social issues with IFC. After approval of the final EAP by the Environment Division, the Investment Department releases the EAP to the World Bank InfoShop and the project sponsor releases it locally in a culturally appropriate manner. For Category B projects, the Environment Division if necessary updates the ERS to reflect the final understandings between the project sponsor and IFC on environmental and social issues. After the final ERS is endorsed by the project sponsor, the Investment Department releases the ERS to the World Bank InfoShop and the project sponsor releases it locally in a culturally appropriate manner (see paragraph 44). If the project sponsor objects to IFC releasing the EAP, the updated EAP, or the updated ERS, IFC staff do not continue to work on the project.

Monitoring and Supervision

IFC uses the term "supervision" differently from the Bank, due to differences in project cycles of the two institutions. Accordingly, the Bank's OD 13.05 Project Supervision does not apply to IFC.

IFC monitors the environmental and social performance of projects in its investment portfolio. Project monitoring usually occurs in one or more of the following ways:

- Review of annual monitoring reports prepared by the project company (in a format agreed by IFC);
- Supervision missions carried out by the Investment Department and the Technical and Environment Department; and/or
- Project site visits by staff of the Environment Division. The frequency of the site visits depend on the environmental and social complexity of a project.

The investment officer, in cooperation with the technical specialist and after consultation with the environmental and social development specialists, is responsible for ensuring that supervision reports include information on the project company's compliance with environmental and social requirements. The investment officer is also responsible for ensuring that annual environmental monitoring reports are provided to the Environment Division as required in the legal documentation for the project. The Environment Division is responsible for reviewing such reports and determining whether the project company's compliance with environmental and social requirements is satisfactory. In the case of non-compliance, the Environment Division discusses an appropriate course of action with the

Investment and Legal Departments and specialists in the Technical and Environment Department. The investment officer notifies the project company of this action and any necessary follow-up requirements. The investment officer is responsible for follow-up with both the project company and the Environment Division until the non-compliance situation is resolved.

Project Supervision Reports (PSRs), which IFC prepares at least annually, must include a section on environmental and social compliance with regard to covenants in the investment agreement. In addition, the PSR must state whether the Environment Division has received the Annual Monitoring Report (as required in the investment agreement), the date submitted to IFC and the date reviewed by the Environment Division.

Evaluation

During the course of selected projects an Investment Assessment Report (IAR) is prepared which summarizes the evaluations of the actual environmental and social impacts of the project against the impacts anticipated in the EA report, and assesses the effectiveness of the mitigating measures. The Environment Division provides input to the IARs and signs off on the relevant draft text and attendant project performance ratings.

Source: Website IFC (www.ifc.org), Viewed in February 2004.

Appendix 3 Notes

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