

Berlin, 28 June 2021

## **EBRD AGM Briefing, 28 June 2021**

With three regional offices in Uzbekistan and a current portfolio of projects worth \$1,423 million EBRD's level of economic engagement and physical presence in Uzbekistan offers a unique opportunity for the Bank to face head on the challenges that remain as the economy transitions. Indeed, President Mirziyoyev's ambitious reform agenda has focused primarily on the economy while political and social reforms have not kept pace. This is particularly true for civil society and an enabling environment, a key indicator for risk of human rights violations.

### Environmental and Social Due Diligence

EBRD has approved a \$70 million loan to Indorama to develop its operations in the agribusiness sector. Other Indorama companies have in the past come under fire for serious labor rights abuses: a spinning facility operating in Uzbekistan, Indorama Kokand Textile, was the [subject of complaints](#) by civil society submitted to the International Finance Corporation's (IFC) Compliance Advisor Ombudsman (CAO) in 2016 for its links to child and forced labor. In Nigeria, employees of Indorama Elime Fertilizer and Chemicals Ltd, [filed a complaint](#) with IFC's CAO in 2018 relating to labor rights violations and interference in trade union activity. The company therefore was known for a level of risk that should have triggered red flags requiring a higher level of due diligence. Although no forced labor was detected during the 2020 cotton harvest on farms operated by Indorama Agro, a series of [labor rights violations](#) came to light in late 2020 prior to the approval of a loan of \$70 million.

Had there been no independent monitoring and subsequent intervention by [Uzbek Forum for Human Rights](#) and [CEE Bankwatch Network](#), it is unlikely that the Bank would have been made aware of these [violations](#) which included reprisals against a whistleblower, mass dismissals, low wages, poor working conditions, obstruction of independent monitoring and breaches of environmental standards. Reporting these concerns to the Bank was not without challenge. Communications via EBRD's complaints portal in November 2020 went unacknowledged. Furthermore, in an [interview with Ozodlik](#), the Uzbek edition of Radio Free Europe/Radio Liberty (RFE/RL), a spokesperson for the Bank subsequently maintained that "the scale of the problems identified by Uzbek farmers and an international non-governmental group was minimal." It appears

that the Bank was either unwilling or unable to conduct the necessary due diligence that was ultimately carried out, free of charge, by Uzbek Forum and Bankwatch and despite written communications detailing concerns.

### Environmental and social action plan

Scrutiny of project documents by Uzbek Forum and Bankwatch showed that they were inadequate, incomplete and in breach of EBRD standards, putting workers, the environment and rural communities at risk. Concerns raised by Uzbek Forum and Bankwatch were finally heard by Board Directors just days prior to the approval of the loan which was scheduled for February 2021. However, delayed signing of the loan has secured a number of commitments by the company and we would like to acknowledge here the constructive role of the Bank's Environmental and Social Department (ESD) in facilitating regular meetings with Indorama Agro management to identify solutions.

The case of Indorama Agro raises wider questions regarding the Bank's due diligence procedures, checks and balances:

- Would EBRD have signed off on a project that clearly fails to meet its own standards if NGOs had not made them aware of it?
- What processes are in place to ensure that project documents submitted by clients are measured against the Bank's own standards?
- What consequences would the client have faced if the loan had already been signed?
- Does EBRD have sufficient monitoring capacity to follow up on reports of rights violations?

### Public Participation

Interventions by Uzbek Forum and Bankwatch highlighted both the challenges of operating in an authoritarian setting and the potential for civil society to contribute to measures that improve labor rights and mitigate the risk of violations. However, public consultations, project documents and indicators are based on the assumption that civil society in Uzbekistan has a legitimate voice. It does not. Uzbek civil society lacks capacity and resources; [freedom of speech](#) and [freedom of association](#) are seriously constrained; and the arbitrary power of hokimiyats (local administrations) remains unchecked. Without capacity and resources and a [lack of independent NGOs](#), the ability of Uzbek civil society to participate in meaningful stakeholder consultations is severely undermined.

## Land Acquisition

The privatization of Uzbekistan's cotton sector has brought with it a string of new challenges, the most urgent of which is land grabbing by local administrations who terminate farmers' land leases, ostensibly on a 'voluntary' basis to avoid paying compensation, in order to transfer the land to cotton operators. Indorama Agro has also indirectly benefitted from this coercive practice. This means the entire business model for the privatization of the cotton sector is based on the disempowerment of farmers. Although some farmers have found employment with the company, the net job gains are lower than the job losses. Although these illegal land transfers are rooted in government policy, it does not exonerate companies, including the Bank and its clients, from their responsibility to uphold their commitments to international human rights standards.

Mitigation measures to offset the loss of employment through silk production also risk exposing farmers to further coercive practices, as outlined in previous communications with EBRD and [recently reported](#) in the Uzbek media.

### **Recommendations :**

- Develop measures that ensure meaningful public participation in projects that reflect the reality of the constraints on civil society.
- Ensure that independent monitoring of consultations and implementation of the project can be conducted without obstruction and that monitoring reports are made publicly available in Uzbek.
- Conduct regular meetings with Indorama Agro management and include reviews of the grievance mechanism.
- Improve internal communication procedures that ensure timely responses to concerns raised by stakeholders and others.
- Use influence at government level to call for an independent review of the land acquisition process to determine whether land lease terminations were based on meaningful public consultations and prior, informed consent.
- Strengthen environmental and social monitoring during the project implementation period by verifying feedback from employees, civil society, local communities and other stakeholders.
- Revise the scale of pesticides use based on the most recent scientific data in relation to health and environmental impacts and ensure the exclusion of the most hazardous chemicals, particularly those already banned or under restricted use in the EU.
- Ensure that livelihood restoration plans reflect the net loss of jobs incurred through land transfers and redundancies at Indorama Agro.

- Ensure job loss mitigation efforts do not contribute to the risk of forced labor, particularly in the silk sector.