

Reckless Development: The IFC's Dodgy Deals in Southeast Asia



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Outsourcing Development: Lifting the Veil on the World Bank Group's Lending Through Financial Intermediaries

Part 3
March 2017



In collaboration with



Published by Inclusive Development International, Bank Information Center, Tarkapaw Youth Group, Urgewald, 11.11.11, Accountability Counsel, and Ulu Foundation in March 2017.

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Inclusive Development International

Inclusive Development International is a human rights organization working to make the international economic system more just and inclusive. IDI supports grassroots organizations and communities to defend their land, natural resources and human rights against threats from harmful investment, trade and development practices. Through research, casework and policy advocacy, IDI works to strengthen the human rights regulation and accountability of corporations, financial institutions and development agencies. For more information, please visit www.inclusivedevelopment.net.

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In 2012, the Myanmar government and the Karen National Union signed a historic ceasefire agreement. After nearly 70 years of brutal conflict, relative peace and stability had finally come to southern Myanmar. In the Tanintharyi region, a lush, mostly untouched mountainous area on the border with Thailand, where the fighting had been fierce, the residents began to feel hope.

“The war was over. I had my life back. I felt hopeful that my children would have a good life,” said Aye Po, a 52-year-old mother of six. The formation of a nominally civilian government in the national capital, Naypyidaw, only added to the optimism.

That hope quickly began to fade. Around the time of the ceasefire, a consortium of Myanmar and Thai companies descended on Ban Chaung, a remote part of Tanintharyi, to do what years of civil war had made impossible: extract the region’s rich natural resources. The four companies, led by the Myanmar firm Mayflower Mining, had discovered coal in the area, and they secured permission to establish a 2,100-acre mine and related infrastructure.

At no point did the companies ask people living in the area, mostly members of the Karen ethnic minority, for permission to mine their ancestral land. Rather, they lied about the project and obscured their true intentions at nearly every stage, according to community members. Among a handful of token gestures – captured in photos that appear in promotional materials – the companies distributed 80 bags of cement and contributed \$575 to build a hospital.

“They came in and surveyed my land and killed my betel nut orchard. They didn’t ask for my permission. Nobody told me what was going on,” said Saw Eatze a 29-year-old farmer.

One of those companies, a Thai mining firm called Energy Earth, would play a vital role in the project. Energy Earth would provide most of the capital for the mine, and it would distribute the coal to its vast network of customers in Asia. In exchange, Energy Earth would [receive](#) 70% of the profits.

Although people affected by the project didn’t know it at the time, Energy Earth had an unlikely, though hidden, backer: The International Finance Corporation (IFC), the World Bank’s private-sector arm. The IFC was concealed in Energy Earth’s investment chain, among a number of commercial European and U.S. financial institutions backing the Thai company.

The IFC doesn’t directly own or finance Energy Earth. Rather, it provided \$486 million to two private banks, which in turn own shares in Energy Earth or have financed its customers. Under this arrangement, the IFC does not have a direct stake in the mine, but it will profit from the project and help make it possible, given Energy Earth’s role as the project’s key financier.

The IFC’s role as a financial backer of the mine appeared improbable on a number of levels. For one, the IFC’s stated purpose is to reduce poverty through sustainable development. Underpinning that goal are the IFC’s requirements for protecting people and the environment, the Performance Standards. On paper, at least, those rules should have protected the people of Ban Chaung.

Yet the mine, even in its early stages, has already made hundreds of people from Ban Chaung poorer. In addition, the project has polluted rivers and streams and caused fires that burn almost constantly, emitting noxious fumes. All of this has made people in the area ill. All told, the mine is expected to [harm](#) 16,000 people from 23 villages when it becomes fully operational. It will also destroy a large swathe of pristine forest. These impacts clearly violate the IFC’s Performance Standards.



The mine at Ban Chaung is still in its early stages. When fully operational, it is expected to harm 16,000 people from 23 villages. (Credit: Tarkapaw Youth Group)

The project's impacts will be felt far beyond Myanmar. The mine is currently producing nearly 500 tons of coal per day, which is feeding power plants that generate harmful greenhouse gas emissions. World Bank President Jim Kim warned about the dangers of such power plants in Asia in 2016, when he said building more would spell "disaster" for the planet.

But the contradictions do not end there. The World Bank has been promoting peace and the transition to civilian rule in Myanmar since 2012. That year, the World Bank threw its [weight](#) behind the Myanmar Peace Support Initiative, a Norway-led program that sought to maintain fragile ceasefires in the country's ethnic regions, including Tanintharyi. The World Bank [pledged](#) to "support the peace process in border areas through community-driven development programs to promote the recovery of conflict-affected communities."

By indirectly financing the mine, the IFC risks undermining the very peace that the World Bank Group worked to promote. As the IFC's Performance Standards [warn](#), regions that have recently experienced conflict like Tanintharyi are extremely delicate. Performance Standard Four on Community Health, Safety and Security explicitly warns against projects that are likely to stress scarce local resources and reignite conflict in areas that have recently achieved peace. Yet by channeling money to Energy Earth and the mine, the IFC is doing just that.

The Ban Chaung mine is just one of dozens of harmful and high-risk investments being indirectly financed by the IFC in Southeast Asia. Inclusive Development International uncovered these previously undisclosed links during an ongoing investigation of the IFC's use of financial intermediaries, such as banks and private equity funds.

These investments come at a time when Southeast Asia is experiencing a land and resource rush. The global financial, energy and commodities industries have descended on the region in search of untapped markets. Southeast Asia's vast natural resources, rapid economic growth and weak institutions make it attractive to new investment. These factors also make the region – particularly its most vulnerable communities – susceptible to exploitation.

Inclusive Development International's research has revealed that the World Bank Group, the world's premier development finance institution, is in fact exacerbating poverty, polluting the environment and contributing to climate change in the region by outsourcing its money and its mandate to commercial financial institutions.

In Vietnam, the IFC owns a large stake in Vietinbank, a majority state-owned commercial bank that has funded destructive hydropower dams, including the devastating Son La project, which was estimated to have [displaced](#) 91,000 people; controversial bauxite mines that have [polluted](#) and decimated large swathes of the country's Central Highlands, leading to unprecedented public [opposition](#), including from the Communist Party elite; and coal plants, including the controversial 6,224-megawatt Vinh Tan project, that have polluted the air and water, evicted landowners, and worsened global warming.

Vietinbank's reach extends beyond Vietnam. The bank has lent billions of dollars to Electricity Vietnam, which is part owner of a highly controversial dam in Cambodia, Lower Sesan 2, which will pro-



A village flooded by the reservoir of the Son La dam. (Credit: International Rivers)

Profiting from Impoverishment: The IFC, Vietinbank and the Son La Hydropower Project

In 2005, the Vietnamese government began the largest relocation of people in the country's modern history. Some [91,000 members](#) of 10 ethnic minority groups would be displaced in Vietnam's northwest to make way for the Son La Hydropower Project. When complete, the Electricity of Vietnam-owned project would be the largest hydroelectric dam in mainland Southeast Asia.

The government made a pledge to those being moved: "Life after displacement should be equal or better than it was before." It was an ambitious promise, given the scale of the resettlement and the rapid pace in which it was implemented.

More than 10 years later, most families remain worse off, according to numerous field studies reviewed by Inclusive Development International.

Before being moved 50-100 kilometers to resettlement sites, the evictees lived along the Da (Black) River. Their livelihoods were based primarily on fishing, production of forest resources and cultivation of wet rice.

That all changed after their involuntary resettlement. The relocated families were allocated small plots of dry and rocky land without irrigation, making rice cultivation all but impossible. Out of desperation, they turned to migrant labor and contract farming, but attempting to grow unfamiliar crops such as cassava, corn and tea left many in debt and with few sustainable livelihood options.

The government provided food subsidies for a few years, but those have stopped, and many families don't have enough to eat. Communities have disintegrated, as clan and kin members were torn apart by the resettlement, and cultural practices linked to their former lands and resources are no longer possible.

In 2007, Vietinbank, one of Vietnam's largest commercial banks, joined a syndicate of three other lenders to [provide](#) a \$1.09 billion loan to Electricity of Vietnam to build Son La. In 2011, the IFC and the IFC Capitalization Fund, the institution's financial-sector private equity fund, [bought](#) \$307 million worth of Vietinbank shares, equal to a 13.4% equity stake. The IFC also [secured](#) a seat on the bank's board.

When IFC officials reviewed Vietinbank's portfolio in advance of the deal, they would have seen the Son La loan, which hadn't yet matured. They also would have seen public reports by the [Asian Development Bank](#) and the [Vietnam Union of Science and Technology Associations](#), among others, describing the many problems with the resettlement process.

Regardless, the IFC moved forward with the deal without requiring any measures to remediate the harms that the bank had financed. At best, this was a systemic failure of due diligence. At worst, it showed brazen and callous disregard for the suffering of tens of thousands of Vietnam's most marginalized people.

The IFC has told Inclusive Development International that the problems resulting from the Son La deal were beyond its control, because it predated IFC's investment in Vietinbank. This would have made it difficult, the IFC argues, for it to ask Vietinbank to retroactively impose environmental and social conditions on Electricity of Vietnam.

Yet according to the IFC's policy, when financial intermediaries are engaged in projects with significant environmental and social risks, gaps must be closed to ensure compliance with IFC standards before funds are disbursed. The failure to make remediation in Son La a condition of the IFC's equity investment in Vietinbank meant that the World Bank Group would ultimately be profiting from the suffering of tens of thousands of displaced people.

In 2014, some three years after the IFC became a major shareholder and board member of Vietinbank, the bank signed a \$2.85 billion [cooperative agreement](#) with Electricity of Vietnam that would finance a number of other high-risk hydropower and coal projects. The deal provided yet another major opportunity for the IFC and Vietinbank to require Electricity of Vietnam to remediate the harms it caused with the Son La dam and to align its practices with the Performance Standards moving forward. Yet there is no evidence that this occurred, and the state-owned company has continued to develop new risky power projects with the IFC's backing, without having learned the lessons of Son La.

Back in Son La province, the situation has only worsened for the resettled communities. Some families have had their meager replacement land [appropriated](#) by the Son La Rubber Company, a subsidiary of the vast Vietnam Rubber Group conglomerate. Son La Rubber Company, it turns out, also received [financing](#) from Vietinbank in 2013, two years after the IFC's equity investment.

This IFC-enabled displacement double whammy is evidence, if any more is needed, of just how inadequate the institution's monitoring and supervision of financial-sector clients actually is.

More than 10 years after being resettled, the Son La communities are waiting for the initial pledge -- that life would be better after displacement -- to come good. The IFC, working with its client and the government, is still in a position to help make that happen.

foundly harm the Mekong River's fish stocks. Hundreds of thousands of people depend on the river for their livelihoods and food security. In Cambodia and next door in Laos, Vietnam Rubber Group, the [beneficiary](#) of a multi-billion-dollar agreement with Vietinbank, has developed industrial rubber plantations on tens of thousands of hectares of farmland and forests that are the ancestral domains of the region's indigenous peoples.

Also in Cambodia, two Vietnamese private equity funds backed by the IFC, Dragon Capital's [Vietnam Enterprise Investment Limited](#) fund and the Vietnam Investment Group's [Vietnam Investments Fund II](#), have funded the rubber companies HAGL and Gemadept, which have also grabbed land from indigenous people and decimated ancient forests in the country's northeastern provinces. In addition, Mesco Steel, an Indian conglomerate that has received funding from an IFC-backed commercial bank, is moving forward with gold extraction in Cambodia's northeast despite [concerns](#) that its local partner, Angkor Gold, is not respecting the free, prior and informed consent of indigenous communities.

In Indonesia, the IFC [owns](#) approximately 20 percent of an infrastructure finance facility that has funded a number of problem-

atic projects and raised widespread concerns from Indonesian civil society groups about its failure to implement IFC standards on information disclosure, consultation, and environmental and social protection. After making that equity investment, the IFC doubled down on the facility, PT. Indonesia Infrastructure Finance, [providing](#) it with an [additional](#) \$400 million in loans.

And in the Philippines, two IFC-backed commercial banks, Rizal and BDO Unibank, have [funded](#) a massive expansion of the coal-fired energy sector, threatening to cause severe damage to a low-lying island country that is one of the world's most vulnerable to climate change.

These investments in Southeast Asia are part of a fundamental shift in how the IFC does business around the world. In the decades after the IFC was established in 1956, the World Bank Group member provided funding almost exclusively to projects and companies, many of them small businesses.

In the past decade, however, the IFC has increasingly outsourced its development funds to commercial banks and private equity funds, where social and environmental oversight is weak. In 2016, the IFC [made](#) more than \$5 billion in new commitments to financial intermediaries, bringing its total outstanding commitments to \$20.4 billion by year's end. Although these IFC clients are required to apply the Performance Standards to their investments, there is little evidence that this is occurring.

IFC Infrastructure Financial Intermediaries: The View from Indonesia

The Indonesian government has developed a national plan to meet a shortage in infrastructure finance. The Fast Track Program will develop, among other things, more than 40 coal power plants, 40 geothermal plants (likely to be situated in forested areas), mega-hydropower projects, nuclear plants, and thousands of kilometers of roads and railways through biodiversity-rich forested areas inhabited by indigenous and other forest-dependent communities.

There are concerns that these projects will lead to significant impacts on forests and the people who depend on them. In addition, the projects could cause particular harm to women, including eliminating farming and fishing livelihoods relied upon by women. The projects are likely to create construction jobs that will almost exclusively be held by men.

The IFC is a major shareholder of one financing facility that is likely to play a key role in developing these projects. PT. Indonesia Infrastructure Finance (PT IIF) was established in 2010 with a \$100 million loan from the World Bank. The IFC is a major shareholder, with an equity stake of 19.99%. The Asian Development Bank (19.99%) and Germany's DEG (15.12%) are also shareholders, meaning that public financial institutions hold the majority of PT IIF shares. As of March 2016, it had attracted \$413 million in commitments.

In public documents related to the investment, the IFC identified the “inherently high [environmental and social] risks of the sub-projects” that could be financed by PT IIF. These include “community and resettlement impacts including indigenous communities, impacts on local flora and fauna, occupational health and safety, water and air pollution and impacts on cultural heritage,” according to the documents.

Despite these concerns, the IFC has doubled down on PT IIF in the years since it was created. In 2014, the IFC provided the facility with with a [senior debt package](#) of up to \$250 million, followed by another [senior debt package](#) for up to \$150 million the next year.

The IFC claims that communities affected by PT IIF's investments have “have unrestricted access to the Compliance Advisor Ombudsman (CAO), the independent accountability mechanism for IFC.” However, documents on the fund's website mention only local grievance mechanisms. After campaigns by civil society, the fund finally began to disclose some information about its activities, including a list of 16 projects it has funded. These include:

- A toll road project in Java that impacted the land and livelihoods of over 5,600 people.
- A 350-megawatt gas project in Batam that led to “social unrest” and that will destroy mangroves (to be “offset” by planting mangroves in another area over a three-year period).
- Several “micro-hydropower” projects, including one “almost next to” the Kerinci Seblat National Park, apparently in a watershed area. This project was predicted, according to project documents, to have an impact “which could be categorized as large because it involves land ownership and negotiations about the amount of land released.” The recommendation was, in this case, to use a “persuasive approach” on the landowners who would be impacted by the hydropower project.

Civil society groups in Indonesia have faced ongoing obstacles in accessing information about PT IIF and the projects in its funding pipeline. They are concerned about the facility's impacts on local communities and the environment and the failure to meaningfully consult people on impact assessments and mitigation plans. For these reasons, they are demanding that the IFC and World Bank correct the substantial environmental and social problems in PT IIF before pushing forward with more funding for PT IIF or with the establishment of additional infrastructure financial intermediaries, such as the proposed Regional Infrastructure Development Fund.

Contributed by Indonesian Legal Resource Center (ILRC), Lembaga Studi dan Advokasi Masyarakat (Institute for Policy Research and Advocacy), WALHI, and Ulu Foundation. For more information, see report on Safeguards and Indonesian Infrastructure Financial Intermediaries by Ecological Justice, ILRC, ELSAM, Walhi, ICW, Pusaka, Ulu Foundation, debtWatch, CITA, Biotana Bahari, CAPP, Urgewald, 2016.

www.mitrahukum.org, elsam.or.id, www.safeguardcomments.org.

If ever a region needed the protections of the Performance Standards, it is Tanintharyi, whose people were devastated by nearly seven decades of civil war and displacement.

In 1997, the conflict intensified when government troops began an offensive in the region. The Fourth Brigade of the Karen National Liberation Army, the military arm of the Karen National Union, was overrun in the fighting. An untold number of villagers were killed. Others were forcibly conscripted. Government soldiers burned homes and crops, and thousands of people fled to the forest.

"I was terrified, so I ran," said Saw Telday, 42. He spent two years living in a patched-together hut in the jungle, where he foraged for food and attempted to grow rice in small clearings. People sneaked him salt and sugar at night. "I was starving. I never had enough to eat," he said.

Fellow villager Aye Po, the mother of six, survived for three months in the forest before finding her way to a refugee camp in Thailand. "At least my children could get enough to eat," she said. Aye Po stayed there with her children for two years, before returning to her village in 1999, when the fighting became less intense.

When Aye Po and the others returned, they found villages that had become depopulated wastelands, their betel nut orchards fallow and houses dismantled and stripped of possessions. "We came back to nothing. We knew that it would be very difficult to rebuild," said Naw Eh Dei Nar, 43.



The Ban Chaung mine will contaminate the only water source for 6,750 people, including the community members pictured here. Pollution is also seeping into their agricultural land, killing crops and hurting yields. (Credit: IDI)

that had been passed down to them by their ancestors.

"We worked hard to rebuild our lives. But we were worried about losing our homes again, about our land being taken," Naw Eh Dei Nar, 33, said.

Those fears turned out to be well founded. Tanintharyi was a vulnerable region that had recently experienced conflict, and into that space arrived a plan for development - a plan mostly hatched outside of the region.

In Ban Chaung, the first inkling of the new plan took the shape of survey crews. In 2011, teams of Thai-speaking workers started making preparations for a road that would allow mining machinery to come in - and coal to be transported out. As the crews did their work, it became clear that the road would swallow up agricultural land.

Company representatives eventually explained to community leaders what was happening. But it was readily apparent during these encounters that the decisions had already been made. "They told us the Karen National Union had given permission for the project. We couldn't interfere," said Saw Telday, the man who spent two years living in the forest.

Aye Po, the mother of six, grew frustrated with the lack of information - and the unwillingness of the companies and authorities to engage. "We felt powerless," she said. She and a group of villagers blocked the crews from doing their work on the road. They went to company meetings to express their concerns. "They let us speak. But there were never any changes on the ground," she said.

In 2012, the situation came to a head: mining equipment began to roll in. Heavy-duty excavators, bulldozers and dump trucks rumbled over the new road, kicking up plumes of dust that blanketed everything in a layer of grit. "Our children would go to school in their white uniforms and come home caked in brown," Naw Eh Dei Nar said. The coal trucks drove fast and recklessly, causing accidents. "They just didn't care," he said.

The mining began around the time of the ceasefire. At its full permitted expanse of 2,100 acres, the project would contaminate the only water source for 6,750 people. It started out small, with machines and workers strip-mining perhaps a few dozen acres.

The IFC's Risky Business in South-east Asia

1. Financial Intermediary: Vietinbank (Vietnam)

IFC Investment: In 2011, the IFC and the IFC Capitalization Fund [invested](#) \$307 million in Vietinbank through the IFC Capitalization Fund, amounting to 13.4% equity stake.

Vietinbank dodgy deals:

- 2014 [cooperation agreement](#) worth \$2.85 billion with Electricity Vietnam, developer of most of the country's 205 hydropower projects and at least [12 coal plants](#).
- 2010 [cooperation agreement](#) worth \$3.2 billion with Vietnam Rubber Group, developer of industrial rubber plantations that have caused [deforestation and displacement](#) of local communities in Vietnam, Cambodia and Laos.
- 2007 [cooperation agreement](#) with the Vinacomin, developer of controversial bauxite mines, coal mines and coal plants.

2. Financial Intermediary: Dragon Capital (Vietnam)

IFC Investment: In 2002, the IFC [invested](#) \$12 million in the Vietnam Enterprise Investment Limited fund and the fund's manager, Dragon Capital.

Dragon Capital dodgy deals:

- Equity investment in the Vietnamese rubber company Hoang Anh Gia Lai, which [grabbed land from indigenous communities](#) and [decimated ancient forests](#) in Cambodia and Laos.

3. Financial Intermediary: Vietnam Investment Group

IFC Investment: In 2011, the IFC made a \$15 million equity investment in Vietnam Investment Group's [Vietnam Investments Fund II](#).

Vietnam Investment Group dodgy deals:

- 2012 [convertible loan](#) worth \$40 million to Vietnamese rubber company Gemadep, which has economic land concessions in Cambodia that were the site of [forced evictions](#).

4. Financial Intermediary: Raiffeisen Bank International (Austria)

IFC Investment: In 2014, the IFC [bought](#) \$186 million of Raiffeisen shares, giving it a significant ownership stake in the bank.

Raiffeisen Bank dodgy deals:

- 2016 [equity](#) investment in the Thai coal company Energy Earth. The company has financed and distributes coal from Myanmar's Ban Chaung mine, which will [harm](#) 16,000 people from 23 villages.
- Two syndicated loans worth \$7.8 billion to HeidelbergCement, majority owner of a cement factory in Java, Indonesia that [threatens local water resources and livelihoods](#).

5. Financial Intermediary: China-ASEAN Investment Cooperation Fund (Hong Kong)

IFC Investment: In 2012, IFC [invested](#) \$100 million in the China-ASEAN Investment Cooperation Fund, asserting that its investment would "influence the investment mandate of the Fund to adopt a stronger development-focus and to implement Equator Principles and E&S standards."

China-Asean Investment Cooperation Fund dodgy deals:

- 2011 [\\$50 equity investment](#) in Asia's largest potash mine in Laos. According to a 2010 World Bank [report](#), there were significant issues with the land acquisition process, including inadequate compensation and reports of coercion.

6. Financial Intermediary: PT. Indonesia Infrastructure Finance

IFC Investment: In 2009, the IFC [purchased](#) 19.99% of equity in PT. Indonesia Infrastructure Finance. In 2014, the IFC provided a \$250 million [loan](#) to the facility, followed by an additional \$150 million [loan](#) in 2015.

PT. Indonesia Infrastructure Finance dodgy deals:

- Funded problematic infrastructure projects and raised deep concerns from [Indonesian civil society groups](#) for its high level of opacity and failure to implement IFC standards on information disclosure, consultation, and environmental and social protection.

Yet even in those early days, the problems it would bring were obvious.

Workers dumped toxic mining waste directly into streams used for fishing and drinking water, causing fish to die and people to fall sick with skin diseases and other illnesses. Pollution seeped into agricultural land, killing crops and dampening yields. Soldiers and workers from outside the area became omnipresent, and people began to feel unsafe in their own homes.

In 2015, the situation deteriorated dramatically when coal fires began burning uncontrollably. The blazes, which occur when underground coal deposits smolder, are an unavoidable byproduct of strip mining. They release toxic fumes that create serious health problems for people and the environment. The acrid odor can be unbearable.

"The smell is hideous. When I'm near it, I can't breathe. I get dizzy and have headaches," said Aye Po, the mother of six. The fumes were so overpowering and debilitating that she abandoned her house near the mine and began living in a tent, a way of life she thought she gave up when she left the Thai refugee camp nearly 20 years ago.

Reality - the harsh, unavoidable truth of the mine - was finally setting in among the villagers. "After the ceasefire was signed, I thought I would live peacefully. But I don't think that anymore," Saw Telday said. "This mining project is worse than the civil war."

As the villagers grappled with the mine, two financial deals were brewing thousands of miles away. These deals would implicate the IFC in a web of financing that would surround Energy Earth and the mine.

At the IFC's headquarters in Washington, DC, officials were considering two substantial investments in commercial banks. If approved by the World Bank's board of directors, the deals would ultimately result in IFC money flowing to Energy Earth and the mine, and in turn they would move profits from the mine and Energy Earth up the chain to the IFC.

The deals, with commercial banks in Austria and China, had especially dubious development rationales.

7. Financial Intermediary: BDO Unibank (Philippines)

IFC Investment: In 2010, the IFC made a \$150 million equity investment in BDO Unibank.

BDO Unibank dodgy deals:

- Financed at least 16 new coal-fired power plants, either directly or through the companies that own them.

8. Financial Intermediary: Rizal Commercial Bank (Philippines)

IFC Investment: In 2011, the IFC made a \$49 million equity [investment](#) in Rizal Commercial, followed by an additional \$100 million equity [investment](#) in 2013. In 2015, the IFC made a \$75 million [investment](#) in Rizal bonds.

Rizal Bank dodgy deals:

- Financed 19 new coal-fired power plants, either directly or through the companies that own them.

9. Financial Intermediary: Postal Savings Bank of China

IFC Investment: In 2015, the IFC made a \$300 million equity [investment](#) in the Postal Savings Bank of China.

Postal Savings Bank dodgy deals:

- \$1.5 billion in bonds between 2015 and 2016 for four of China's "big five" electric utility companies, which are buyers of coal from Thai company Energy Earth. The company has financed and distributes coal from Myanmar's Ban Chaung mine, which will [harm](#) 16,000 people from 23 villages.
- \$449 million bond in 2016 for China's Datang, developer of the controversial [Pak Beng hydropower dam](#) on the lower Mekong mainstream, which will directly affect 25 villages in Laos and two villages in Thailand and block fish migration and sediment flows. Datang also [owns and is planning](#) dozens of coal-fired power plants in Asia.
- \$3.1 billion in bonds for China's Three Gorges Corporation since the IFC's investment in 2015. The company is the developer of the Three Gorges Dam, the world's [largest and most notorious dam](#), which displaced more than 1.2 million people.

While the deals were framed in public documents largely in terms of alleviating poverty and helping small businesses access credit, their primary impact would be to help two large, profitable banks raise much-needed capital. In turn, the IFC would receive a handsome profit. The deals would also expose the IFC to some of the world's most notorious companies.

In Vienna, Raiffeisen Bank, Austria's third largest in terms of assets, owed the government and other investors more than \$2.5 billion in aid that it used to ride out the global financial crisis. Raiffeisen needed to repay that assistance - and quickly. The debts pushed the bank afoul of Basel III requirements for Tier 1 capital, rules meant to help prevent another financial crisis. Violating Basel III could [result](#) in fines and other penalties.

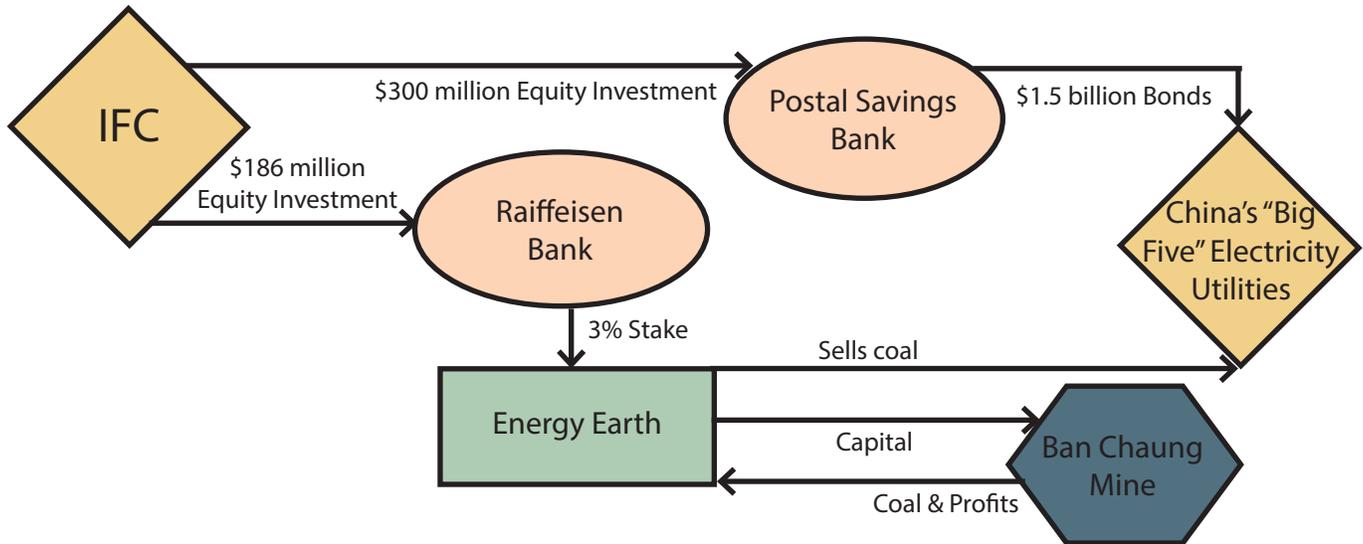
In order to raise the money rapidly, Raiffeisen launched a transaction known as an accelerated bookbuilding. The deal would [allow](#) the company to sell shares to existing shareholders and other investors, generating funds much faster than a bank loan.

In January of 2014, as mining equipment and dump trucks rumbled into Ban Chaung, the IFC bought \$186 million of Raiffeisen shares, giving it a significant ownership stake in the bank. [According](#) to project documents, the deal was part of Raiffeisen's accelerated bookbuilding. The IFC's investment would come in the "form of Tier 1 capital as part of its capital planning." In other words, the deal would help Raiffeisen right the ship and meet the requirements of Basel III.

When IFC officials opened Raiffeisen's books and conducted due diligence for the deal, they would have seen some striking things. Raiffeisen's existing client list included the U.S. tobacco giant Philip Morris. Tobacco is on the IFC's [exclusion list](#), meaning it is forbidden from investing in the industry. Yet in buying an equity stake in Raiffeisen, the IFC would be indirectly financing the world's largest cigarette maker. Raiffeisen's clients also [included](#) Gazprom, the Russian energy conglomerate with well-documented connections to [corruption](#) and environmental destruction, including harmful [arctic drilling](#).

Despite these obvious red flags, the board approved the deal, and the IFC moved forward with the equity

IFC's Exposure to Ban Chaung Mine



purchase. Following this, Raiffeisen went on to [buy](#) a 3% stake of Energy Earth, the leading player in the Ban Chaung mine.

Around the same time, the IFC was considering another equity investment in a large commercial bank, in this case the Postal Savings Bank of China. At \$300 million, the proposed investment would be the largest equity purchase of a Chinese bank in the IFC's history. Postal Savings Bank was preparing to undertake its initial public offering, a deal potentially worth billions of dollars. Having a prestigious institution like the IFC as a cornerstone investor would only strengthen the appeal of the initial public offering.

The proposed deal was extremely controversial by the polite standards of the World Bank's internal politics. When the investment was put before the board for a vote, representatives from the United States, Japan, the UK, Germany and France abstained, an unusual display of dissent, [according](#) to an article in the *Financial Times* from December 2015. Peter Woicke, head of the IFC from 1999 to 2005, was quoted as saying: "It is unclear to me what the role is for the IFC in [the Postal Savings Bank of China]... If that [investment returns] is why you are doing it you might as well be Goldman Sachs. But the job of the IFC is not just to be Goldman Sachs."

A former Goldman Sachs banker, Jin-Yong Cai, happened to be the head of the IFC at the time. He dismissed such concerns. In defending the deal, he revealed - perhaps unintentionally - its true goal. "We have made so much money from our investments [in China]. We are so lucky," he said.

With the public backing of Jin-Yong Cai, the deal went through. Following the IFC's investment, Postal Savings Bank co-arranged approximately \$1.5 billion in corporate bonds for four of China's "big five" electric utility companies: Huaneng, Datang, Guodian and China Power Investment. The "big five" are reportedly major buyers of Energy Earth's coal, [according](#) to an investor report by CM Equity, a venture capital firm.

The bonds underwritten by Postal Savings Bank were general in nature, meaning the power companies could use the capital as they saw fit, including to purchase coal to feed their power plants in China. As such, the IFC, through its equity stake in Postal Savings Bank, appears to be channeling funds that could be used for the purchase of coal from the Ban Chaung mine.



Coal fires burn constantly in Ban Chaung, emitting noxious fumes that cause health problems. The acrid odor can be unbearable. (Credit: Tarkapaw Youth Group)

On a Wednesday morning in mid-January of 2017, a group of villagers from Ban Chaung gathered around a table in the offices of a local NGO to discuss a disturbing new development.

Earlier that morning, new documents had surfaced showing that two more companies had received permits to explore for coal in an additional 2,800 acres. This would more than double the existing mining area in Ban Chaung. The villagers did not appear surprised by this development, given how little control they've had over the process. But they were worried.

"We don't know what to do," said Saw Steal Bree, 43. "We're already fighting one mine, and now a new one comes?"

A group of villagers had taken the documents to a local photocopy and map shop, where they used GPS coordinates to figure out whose houses and farmland would be affected. Neither the authorities nor the companies had bothered to explain this to community members.

Talk turned to their children. "I worry that my daughter will be affected. She's only one year old. What will the mine do to someone so young?" Saw Eatze wondered.

"I rely on income from my betel nut orchard to send my kids to school. Without that money, they won't receive an education," Saw Telday said.

The knowledge that the World Bank was involved was especially difficult to understand. To the

residents of Ban Chaung, the IFC seemed distant and abstract. And yet, ostensibly at least, it was supposed to help people like them.

"We've lived in this forest for years. Even though it's ours, we feel powerless. The World Bank is so far away. How would we even speak to them?" Saw Eatze said. "If I could speak to the World Bank, I would say: 'Your development projects shouldn't be harming us. We are suffering.'"

"I cannot suffer any more," said Aye Po, the mother of six. "This project is hideous. It must be stopped."



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