



## **CAO ASSESSMENT REPORT**

**Regarding concerns in relation to  
IFC's Bilt Paper B.V. Project (#34602)**

February 2015

Office of the Compliance Advisor Ombudsman  
*for*  
International Finance Corporation  
Multilateral Investment Guarantee Agency  
[www.cao-ombudsman.org](http://www.cao-ombudsman.org)

## **About the CAO**

The Office of the Compliance Advisor Ombudsman (CAO) is the independent accountability mechanism for the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA), the private sector arms of the World Bank Group. CAO reports directly to the President of the World Bank Group, and its mandate is to assist in addressing complaints from people affected by IFC/MIGA supported projects in a manner that is fair, objective and constructive and to enhance the social and environmental outcomes of those projects.

For more information, see [www.cao-ombudsman.org](http://www.cao-ombudsman.org)

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## **LIST OF ACRONYMS**

|      |  |
|------|--|
| BILT | Ballarpur Industries Limited               |
| CAO  | Office of the Compliance Advisor Ombudsman |
| IFC  | International Finance Corporation          |
| MIGA | Multilateral Investment Guarantee Agency   |
| SFI  | Sabah Forest Industries                    |

## **1. OVERVIEW**

In September 2014, CAO received a complaint regarding IFC's investment in Bilt Paper B.V., specifically focused on Bilt Paper's pulp and paper manufacturing subsidiary, Sabah Forest Industries (SFI), whose operations are located in Malaysia. The complaint raises concerns regarding the impact of project operations on local rivers, community land, and biodiversity, among other issues. CAO determined that the complaint met its three eligibility criteria in October 2014, and began an assessment of the complaint. Subsequently, CAO was not able to reach the complainant to advance the assessment process. Since a CAO dispute resolution process requires voluntary agreement to participate by parties, and this cannot be ascertained, the case will now be referred to CAO's compliance function for appraisal of IFC, as per CAO's Operational Guidelines.

## **2. BACKGROUND**

### **2.1 The Project**

According to IFC, IFC invested \$100 million in equity in Bilt Paper B.V., a company incorporated in the Netherlands. Bilt Paper owns subsidiaries which are leading pulp and paper manufacturers in India and Malaysia. Bilt Paper is a subsidiary of Ballarpur Industries Limited (BILT), which is headquartered in India and is also an IFC investee company (project # 10066 in 2000) and (project # 20798 in 2003). IFC's investment also comprises a \$50 million direct loan and \$100 million in syndicated loans to Sabah Forest Industries (SFI), whose operations are located in the Sabah state of Malaysia.

### **2.2 The Complaint**

In September 2014, CAO received a complaint in relation to the operations of Bilt Paper's subsidiary Sabah Forest Industries. The complaint raises concerns that project operations are having an adverse effect on water quality of local rivers that the complainant and the complainant's community depend on and violate IFC standards. Specifically, the complainant contends that the company's harvesting operations have filled rivers in the catchment area of Sipitang in Sabah with dirt and mud. These are waters that the community uses for drinking, irrigation, and herding. The complaint also mentions concerns relating to improper takeover of community land, loss of biodiversity, and other environmental impacts. The complainant requested confidentiality.

## **3. ASSESSMENT SUMMARY**

The purpose of CAO's assessment is to clarify the issues and concerns raised by the complainant, to gather information on how other stakeholders see the situation, and to determine whether the complainant and Bilt Paper would prefer to pursue a dispute resolution process under CAO auspices, or the complaint be referred for compliance appraisal of IFC's environmental and social performance. CAO does not gather information during its assessment to make a judgment on the merits of the complaint.

### **3.1 Assessment Methodology**

CAO's assessment of the complaint consisted of:

- Email correspondence with the complainant at the time of determining eligibility;
- Email correspondence and a conference call with the company; and
- Calls with the IFC team.

A CAO assessment typically involves a field visit to meet with the complainant/affected community, and project sponsor to gain a better understanding of the situation. In this case, CAO did not carry out a field trip. After initial contact with the complainant through the eligibility phase, CAO was no longer able to reach the complainant through the contact information made available to CAO.

### **3.2 Summary of Issues**

#### The complainant's perspective

As stated in the complaint to CAO, the complainant is concerned that the company's activities through Sabah Forest Industries violate IFC standards and have led to improper takeover of community lands, loss of biodiversity, and river contamination.

#### The company's perspective

In their engagement with CAO, the company acknowledged that they operated in a sensitive environment, which required significant investments in environmental and social impact management. They expressed a willingness to address any additional concerns raised in the complaint to CAO.

## **4. NEXT STEPS**

Since a CAO dispute resolution process requires voluntary agreement to participate by the complainant(s) and company at a minimum, the case will be transferred to CAO's Compliance function for appraisal of IFC's environmental and social performance. This does not preclude the option for the complainant to reinitiate contact with CAO in the future.

## ANNEX A. COMPLAINT HANDLING PROCESS

The Office of the Compliance Advisor Ombudsman (CAO) is the independent accountability mechanism for the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA), the private sector arms of the World Bank Group. CAO reports directly to the President of the World Bank Group, and its mandate is to assist in addressing complaints from people affected by IFC/MIGA supported projects in a manner that is fair, objective, and constructive and to enhance the social and environmental outcomes of those projects on the ground.

The initial assessment is conducted by CAO's Dispute Resolution function. The purpose of CAO's assessment is to: (1) clarify the issues and concerns raised by the complainant(s); (2) gather information on how other stakeholders see the situation; and (3) help stakeholders understand the recourse options available to them and determine whether they would like to pursue a collaborative solution through CAO's Dispute Resolution function, or whether the case should be reviewed by CAO's Compliance function.

This document is a preliminary record of the views heard by the CAO team, and explanations of next steps depending on whether the parties choose to pursue a Dispute Resolution process or prefer a CAO Compliance process. *This report does not make any judgment on the merits of the complaint.*

As per CAO's Operational Guidelines,<sup>1</sup> the following steps are typically followed in response to a complaint that is received:

Step 1: **Acknowledgement** of receipt of the complaint

Step 2: **Eligibility:** Determination of the complaint's eligibility for assessment under the mandate of the CAO (no more than 15 working days)

Step 3: **CAO assessment:** "Assessment of the issues and provide support to stakeholders in understanding and determining whether they would like to pursue a consensual solution through a collaborative process convened by CAO's Dispute Resolution function, or whether the case should be handled by CAO's Compliance function to review IFC's/MIGA's environmental and social due diligence. The assessment time can take up to a maximum of 120 working days."

Step 4: **Facilitating settlement:** If the parties choose to pursue a collaborative process, CAO's dispute resolution function is initiated. The dispute resolution process is typically based or initiated by a Memorandum of Understanding and/or a mutually agreed upon ground rules between the parties. It may involve facilitation/mediation, joint fact-finding, or other agreed resolution approaches leading to a settlement agreement or other mutually agreed and appropriate goal. The major objective of these types of problem-solving approaches will be to address the issues raised in the complaint, and any other significant issues relevant to the complaint that were identified during the assessment or the dispute resolution process, in a way that is acceptable to the parties affected<sup>2</sup>.

OR

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<sup>1</sup> For more details on the role and work of CAO, please refer to the full Operational Guidelines: [http://www.cao-ombudsman.org/documents/CAOOperationalGuidelines\\_2013.pdf](http://www.cao-ombudsman.org/documents/CAOOperationalGuidelines_2013.pdf)

<sup>2</sup> Where stakeholders are unable to resolve the issues through a collaborative process within an agreed time frame, CAO Dispute Resolution will first seek to assist the stakeholders in breaking through impasse(s). If this is not possible, the Dispute Resolution team will inform the stakeholders, including IFC/MIGA staff, the President and Board of the World Bank Group, and the public, that CAO Dispute Resolution has closed the complaint and transferred it to CAO Compliance for appraisal.

**Compliance Appraisal/Investigation:** If the parties opt for a Compliance process, CAO's Compliance function will initiate an appraisal of IFC's/MIGA's environmental and social due diligence of the project in question to determine whether a compliance investigation of IFC's/MIGA's performance related to the project is merited. The appraisal time can take up to a maximum of 45 working days. If an investigation is found to be merited, CAO Compliance will conduct an in-depth investigation into IFC's/MIGA's performance. An investigation report with any identified non-compliances will be made public, along with IFC's/MIGA's response.

Step 5: **Monitoring** and follow-up

Step 6: **Conclusion/Case closure**