



ANNEX

Financial links between IFC and the Kendeng Project and IFC policy analysis

Inclusive Development International (IDI) is an international human rights organization that works to make the global economy more just and inclusive. IDI supports affected communities to defend their rights and the environment in the face of harmful investment, trade and development activities.

IDI is supporting [REDACTED] in defending its members' rights and the environment against a proposed limestone mine and cement factory in Kendeng mountains in Pati regency, Central Java ("the project"). The project is being developed by local Indonesian subsidiaries of German company HeidelbergCement. IFC is exposed to this project through its financial intermediary client Raiffeisen Bank International, in which it holds a significant equity stake.

IDI has prepared this policy analysis in support of [REDACTED] complaint to the Compliance Advisor Ombudsman (CAO).

Section A explains IFC's material exposure to the project in Kendeng through its investment in Raiffeisen Bank International. Section B sets out areas of non-compliance by IFC with the Environmental and Social Sustainability Policy. Section C describes areas of non-compliance by the project developer with the Environmental and Social Performance Standards. Section D explains the serious security risks that Indonesian environmental activists, including [REDACTED], currently face.

A. IFC's Material Exposure to the Project through Raiffeisen Bank International

IFC equity investment in Raiffeisen Bank:

1. In January 2014, IFC made a "straight equity investment" of up to €150 million in Raiffeisen Bank International AG (RBI).¹ When IFC purchased common stock in RBI, it gained exposure to the Austrian bank's entire balance sheet. This includes RBI's loan to and any subsequent equity and debt investments in Heidelberg Cement.
2. As a shareholder of RBI, IFC receives a proportion of the bank's profits in the form of dividends; has voting rights; and is entitled to a proportion of the bank's net worth if its liabilities are settled and its assets are sold. Equity investments of this nature cannot be ringfenced.

¹ IFC Project Information Portal, "Project #31979," October 15, 2015.
<https://disclosures.ifc.org/#/projectDetail/SII/31979>

3. IFC is a shareholder in RBI, not its Eastern European subsidiaries. The IFC Project Information Portal claims that RBI “confirmed to IFC that it will deploy” the capital from this investment to four banking subsidiaries in Eastern Europe. However, the portal nonetheless makes clear that IFC deal is a “straight equity investment” in RBI – not those four subsidiaries.² If IFC had wanted to invest directly in those subsidiaries, it could have done so. Indeed, IFC has done just that on many occasions: It made nine direct investments in RBI’s Eastern European subsidiaries between 2000 and 2019.³ However, in this case, IFC chose to purchase shares in RBI.
4. The IFC investment was designed to benefit RBI. IFC invested directly in RBI– and not its subsidiaries – because the Austrian bank needed to be bailed out of financial trouble. The investment contributed to RBI’s accelerated book-building transaction in 2014, which was designed to help the Austrian bank repay €2.5 billion in assistance it received following the 2008 financial crisis. The IFC investment also helped the Austrian bank comply with Basel III requirements.⁴

RBI’s financing of HeidelbergCement:

5. RBI is a participant in a syndicated revolving credit facility of up to €3 billion provided to HeidelbergCement. RBI contributed €150 million to this credit facility. This loan has been active since 2018.⁵
6. The nature of the credit facility means that HeidelbergCement could use the funds as it sees fit across its operations, including in Indonesia. (See Diagram 1 showing IFC’s exposure to the project.)

HeidelbergCement’s effective control over the project in Kendeng Mountains

7. HeidelbergCement is the sole owner of a number of holding companies through which it holds a 51% share in the Indonesian company PT Indocement.⁶ Formerly state-owned, PT Indocement is one of the largest cement producers in Indonesia.⁷ PT Indocement publicly presents itself as a constituent part of HeidelbergCement Group.⁸

² IFC Project Information Portal, “Project #31979,” October 15, 2015.

<https://disclosures.ifc.org/#/projectDetail/SII/31979>

³ IFC Project Information Portal. Accessed May 2020.

<https://disclosures.ifc.org/#/enterpriseSearchResultsHome/raiffeisen>

⁴ Reuters, “Raiffeisen Bank International Launches Capital Increase,” January 21, 2014.

<https://www.reuters.com/article/raiffeisen-caphike-idUSL5N0KV3HQ20140121>

⁵ HeidelbergCement, “HeidelbergCement signs new five year €3 billion revolving credit facility,” January 15, 2018.

<https://www.heidelbergcement.com/en/pr-15-01-2018>

⁶ PT Indocement, “Shareholders Composition,” Accessed May 2020.

<http://www.indocement.co.id/v5/en/company/informasi-pemegang-saham/komposisi-pemegang-saham-and->

PT Indocement, “Information of the Major Shareholders and Controlling Shareholders,” Accessed May 2020.

<http://www.indocement.co.id/v5/en/compliance/rapat-umum-pemegang-saham/information-of-the-major-shareholders-and-controll>

⁷ PT Indocement, “Company,” Accessed May 2020. <http://www.indocement.co.id/v5/en/company/>

⁸ PT Indocement, “Homepage,” Accessed May 2020. <http://www.indocement.co.id/v5/id/>

8. PT Indocement, in turn, holds 99.99% of PT Sahabat Mulia Sakti (PT SMS).⁹ PT SMS appears to have the sole function of developing the limestone mine and cement factory in Kendeng Mountains.
9. As such, HeidelbergCement is the ultimate parent company of the project (see Diagram 2).
10. The funds from RBI's loan to HeidelbergCement can be used by the company and its subsidiaries in the development of any project, including the development of the limestone mine and cement factory in Kendeng Mountains. According to the complainants, since 2019, PT SMS has significantly increased its local operations and now has an active office in Kendeng, despite strong and vocal local opposition to the project.

B. IFC's non-compliance with the Environmental and Social Sustainability Policy

11. IFC's 2014 transaction to purchase equity in Raiffeisen Bank International is subject to IFC's 2012 Sustainability Framework, including the Sustainability Policy and IFC Performance Standards.
12. Under the Sustainability Policy, environmental and social risk management requirements apply to the entire portfolio of a financial intermediary client that is originated from the time IFC becomes a shareholder.¹⁰ As IFC made its equity investment in RBI in 2014 and the bank's loan to HeidelbergCement was approved in 2018, the risk management requirements should have applied to this transaction.
13. Under the Policy, IFC is required to ensure its financial intermediary clients have an effective Environmental and Social Management System (ESMS) in place to ensure the management of risk in its portfolio.¹¹ Despite making a straight equity investment in RBI, IFC only reviewed the ESMS of RBI's four "Selected Subsidiaries," according to the project portal.¹² IFC therefore failed to meet its due diligence responsibilities under the Policy.
14. RBI claims to have responsible lending practices and to incorporate "sustainability management" throughout its organizational structure.¹³ However, it does not appear that this management system was functioning effectively when it decided to participate in the loan to HeidelbergCement.
15. The loan to HeidelbergCement, which, among other activities, operates quarries and cement factories around the world, is unequivocally a high-risk investment in terms of environmental and social impacts. Therefore, if RBI was in a position to do so, it should have required the company to apply the Performance Standards in relevant business activities as a condition of financing.¹⁴ Along with other banks that participated in the syndicate, RBI was mandated as bookrunner and Mandated Lead Arranger in the transaction.¹⁵ Bookrunners and mandated lead arrangers typically structure deals and negotiate terms; however, since 19 other banks also played these roles in this transaction, we do not know whether RBI was in a position to

⁹ PT Indocement, "Subsidiaries' Information," Accessed May 2020.

<http://www.indocement.co.id/v5/en/company/informasi-pemegang-saham/informasi-entitas-anak/>

¹⁰ IFC Policy on Environmental and Social Sustainability, paragraph 37.

¹¹ IFC Policy on Environmental and Social Sustainability, paragraph 35.

¹² IFC Project Information Portal, Project #31979. <https://disclosures.ifc.org/#/projectDetail/SII/31979>

¹³ Raiffeisen Bank International. <https://www.rbinternational.com/en/who-we-are/sustainability/governance.html>

¹⁴ IFC Policy on Environmental and Social Sustainability, paragraph 35.

¹⁵ HeidelbergCement. <https://www.heidelbergcement.com/en/pr-15-01-2018>

contractually require HeidelbergCement to apply the Performance Standards.

16. Under IFC's procedures, in the case of syndicated loans in which leverage is limited, the financial intermediary should screen the transaction against key objectives of the Performance Standards and make a "go or no go decision" based on the results of this screening.¹⁶ In other words, if RBI was not in a position to insist on inserting terms into the financing agreement requiring compliance with the Performance Standards, it should have assessed whether HeidelbergCement is likely to be able to meet the objectives of the standards across its operations, and decline participation if it is not.
17. In making this assessment, RBI should have looked at HeidelbergCement's recent track record. The company has been involved in a number of controversial and high-risk projects that do not, prima facie, meet the objectives of the Performance Standards.
18. In 2016, Human Rights Watch released a report detailing how HeidelbergCement's quarry in the occupied Palestinian territories is contributing to violations of international humanitarian law and human rights abuses.¹⁷ Three European pension funds— Denmark's PFA¹⁸ and Sampension¹⁹ and Norway's KLP²⁰— blacklisted or withdrew their investment in HeidelbergCement because of its operations in the West Bank.
19. In March 2018, Western Sahara Resource Watch (WSRW) sent an open letter to HeidelbergCement's CEO expressing concerns regarding the company's operations in Western Sahara. WSRW claimed in the letter that a cement factory owned by a HeidelbergCement subsidiary may be furthering Morocco's illegal military occupation.²¹ The organization had sent letters HeidelbergCement's subsidiary in charge of the operation in 2016 and 2017, but received no response.
20. In relation to the project in Kendeng, [REDACTED] has not been quiet about its opposition. In

¹⁶ Raiffeisen Bank International's share of the total loan is below 25% the applicable standard is in Section 7, 3.2.2. of the IFC Environmental and Social Procedures Manual

¹⁷ Human Rights Watch, "Occupation, Inc., How Settlement Businesses Contribute to Israel's Violations of Palestinian Rights," January 19, 2016. <https://www.hrw.org/report/2016/01/19/occupation-inc/how-settlement-businesses-contribute-israels-violations-palestinian>

¹⁸ Business & Human Rights Resource Centre, "Denmark's largest pension fund blacklists firm over links to Israeli occupation," December 22, 2015. <https://business-humanrights.org/en/danish-pfa-pension-excludes-heidelbergcement-from-its-investment-universe-citing-violation-of-basic-human-rights-illegal-activities-in-occupied-west-bank>

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PFA Invest, "Responsible investment," Accessed May 2020. <https://pfa.dk/om-pfa/corporate-responsibility/ansvarlige-investeringer/>

¹⁹ Danwatch, "Pension Fund blacklists four companies after Danwatch investigation." October 10, 2017. <https://danwatch.dk/en/pension-fund-blacklists-four-companies-after-danwatch-investigation/>

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Sampension, "Excluded companies," May 1, 2020. <https://www.sampension.dk/om-sampension/finansiel-information/ansvarlige-investeringer/Ekskluderede-selskaber>

²⁰ Business & Human Rights Resource Centre, "Norwegian pension fund divests from Cemex & HeidelbergCement over concerns about their operations in the occupied West Bank," June 1, 2015. <https://business-humanrights.org/en/norwegian-pension-fund-divests-from-cemex-heidelbergcement-over-concerns-about-their-operations-in-the-occupied-west-bank>

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KLP, "Exclusion and dialogue," December 4, 2019. <https://www.klp.no/en/corporate-responsibility-and-responsible-investments/exclusion-and-dialogue>

²¹ Western Sahara Resource Watch, "What is HeidelbergCement doing in occupied Western Sahara?" March 2, 2018. <https://www.wsrw.org/a105x4124>

2017, a ██████ indigenous Samin representative took part in demonstrations outside the HeidelbergCement annual general meeting in Heidelberg, Germany, and spoke directly with the CEO of the company. ██████ also asked questions at the AGM and made a presentation calling on shareholders to stop the project. These actions were publicized, including online.²²

21. The development was also subject to litigation arguing the project was unlawful based on the granting of an allegedly improperly constituted three-year environmental permit in 2014. The case was filed in 2015 by Kendeng community members at the Semarang State Administrative Court.²³ The complainants were seeking to prevent the development of the project and cited environmental degradation, social harms and loss of livelihoods that should have been taken into consideration before a permit was granted. The communities won their case at the court of first instance. The litigation was high profile in Indonesia.²⁴ Although the complainants ultimately lost this case at the Supreme Court, the pursuit of this litigation through to final appeal should have been a clear indicator of the strength of opposition to this project. Both public advocacy²⁵ and the litigation should have been a red flag to RBI that this was a highly controversial project. It was clear that this development was opposed by an organized local Indigenous community, among others, and that the objectives of IFC's Performance Standards were therefore unlikely to be met by the company.
22. An effective exercise of environmental and social due diligence by RBI should have surfaced these serious controversies, and led to a "no go" decision on the transaction. IFC, for its part, should have ensured RBI's ESMS was prepared to conduct due diligence on such transactions in this manner – but evidently did not do so.
23. From the point at which it acquired equity in RBI, IFC should have carried out periodic review of the bank's environmental and social due diligence process for its investments and the results of this process. IFC should have periodically reviewed a sample of RBI investments, "especially for business activities with significant environmental and social risks."²⁶ The loan to the controversial HeidelbergCement should have triggered heightened supervision measures, such as site visits to the company's headquarters or higher risk operations, including in Kendeng, as per the Policy.²⁷ IFC should have then worked with RBI to help it address shortcomings in its ESMS.²⁸ If IFC did not take steps of this nature, it failed to meet its supervisory responsibilities under the Policy.

C. Harms and non-compliance with the Environmental and Social Performance Standards

24. The communities in Kendeng are currently in an extremely precarious position. While the company has not yet broken ground and begun either mining limestone or constructing the cement factory, once HeidelbergCement commences these activities there will be rapid and irreparable social and environmental consequences. The communities believe that the mountain itself, which holds spiritual value for the Samin peoples, stands to be entirely

²² Open Democracy, "In Indonesia, the peasant struggle of Kendeng," July 11, 2017. <https://www.opendemocracy.net/en/in-indonesia-peasant-struggle-of-kendeng/>

²³ Casefile number 015/G/2015/PTUN-SMG

²⁴ BBC News, 'Aksi menyemen kaki di Jerman untuk petani Kendeng' May 10, 2017.

²⁵ For example, Knight, B., "Indonesian farmer joins May 1 rally to protest German cement", Deutsche Welle, May 1, 2017. <https://p.dw.com/p/2cBcp>

²⁶ IFC Policy on Environmental and Social Sustainability, paragraph 45.

²⁷ Ibid.

²⁸ Ibid.

destroyed by open-pit mining. The mine and the factory would devastate a delicate ecosystem and threaten the livelihoods of thousands of local people who depend on the mountain's underground water streams to sustain their farms.

25. Due to the inherently destructive nature of the project and clear local Indigenous opposition, it appears impossible for the project to substantively meet the objectives and requirements of the Performance Standards. The project will cause irreversible environmental damage and serious adverse human rights impacts, including violations of rights recognised in the International Covenant on Economic Social and Cultural Rights²⁹ and under the UN Declaration on the Rights of Indigenous Peoples.³⁰ Should this development proceed, the companies and financiers involved in this project are therefore highly unlikely to be able to meet their responsibilities under the UN Guiding Principles on Business and Human Rights.³¹
26. We have limited access to information about the precise risks of the planned project, due to a lack of disclosure and transparency, and we are unable to travel to the area to obtain additional data first-hand due to the Covid-19 pandemic. Therefore, the analysis below should not be considered comprehensive or exhaustive but rather a broad outline of the environmental, social and human rights issues and general areas of non-compliance with the Performance Standards.

Failure to conduct comprehensive environmental and social impact assessments

27. Performance Standard 1 requires IFC clients and sub-clients to establish and maintain a process for identifying the environmental and social risks and impacts of the project. Higher risk projects, like the planned limestone mine and cement factory in Kendeng, require a full-scale impact assessment.³² Performance Standard 6 requires an assessment of the direct and indirect project-related impacts on biodiversity and ecosystem services, including differing values attached to biodiversity and ecosystem services by affected communities.³³ Performance Standard 7 requires the identification, through an environmental and social risks and impacts assessment process, of “all communities of Indigenous Peoples within the project area of influence who may be affected by the project, as well as the nature and degree of the expected direct and indirect economical, social and cultural (including cultural heritage), and environmental impacts on them.”³⁴
28. HeidelbergCement is constructing a mine and factory that will contribute to the destruction of a delicate eco-system and habitat that is depended upon by local communities for their subsistence and livelihoods. The project is also located on customary land of Indigenous Peoples. This high-risk project should have triggered a comprehensive impact assessment, including a no-project option, given the severity and irreversible nature of the impacts. HeidelbergCement subsidiary, PT SMS, apparently hired consultants who conducted an environmental assessment,³⁵ but according to the complainants, local communities where

²⁹ *International Covenant on Economic, Social and Cultural Rights*, 16 December 1966, United Nations, Treaty Series, vol. 993, p. 3. The Covenant was ratified by Indonesia in 2006.

³⁰ UN General Assembly, *United Nations Declaration on the Rights of Indigenous Peoples: resolution / adopted by the General Assembly*, 2 October 2007, A/RES/61/295.

³¹ United Nations, *Guiding principles on business and human rights: Implementing the United Nations "Protect, Respect and Remedy" framework*, 2011.

³² Performance Standard 1, paragraph 7.

³³ Performance Standard 6, paragraph 6.

³⁴ Performance Standard 7, paragraph 8.

³⁵ According to the complainants, the firm hired to conduct the environmental assessment is PT Mitra Adi Pranata.

not meaningfully consulted as part of this process. According to the complainants, the impact assessment was never publicly disclosed or explained to the affected communities.

29. Indonesian authorities at the highest level have assessed the impacts of cement production in Kendeng and found it severely threatens the local ecosystem with serious impacts on local communities. A 2017 report by Indonesia's Presidential Staff Office and Ministry of Environment and Forestry found that continued development in the Kendeng Mountains would threaten the habitats of several plant and animal species and that "several rare, protected animals will face further degradation or even become extinct."³⁶ The report also recognizes the vital role of the Kendeng Mountains in reducing risk in a recognized disaster-prone area. Geological damage to the mountain caused by mining activities could increase the risk of events such as flash flooding, with serious consequences for the health and livelihood of local communities.³⁷
30. The same report found that "if mining activities continue," the economic losses would total 2.4 trillion Indonesian Rupiah per year, due to damage to local water resources for household and agricultural needs, the loss of bat species, which control pests, and loss of tourism. The report also recognises there are likely to be health impacts on the local people due to dust inhalation.³⁸
31. The report recommends that the spatial planning strategy for Kendeng be altered to focus on conservation instead of mining and commercial exploitation, including specific protections for villages close to the mountain.³⁹
32. Indonesian law also requires environmental and social impact assessments for such projects⁴⁰ as well as consultation with project-affected people.⁴¹ As previously mentioned, community members have challenged the validity of the environmental permit for the project based on non-compliance with these legal requirements.

Absence of consultation

33. Performance Standard 1 requires the identification of and consultation with project affected people. The consultation process must be free from external manipulation, interference or coercion, and intimidation.⁴²
34. ██████████, face surveillance, intimidation and threats to their safety from state actors, including the army, that are supportive of the development. Further, the complainants suspect that the company has bought off the administrative head of affected villages. These factors have prevented meaningful company-led engagement with communities.
35. According to ██████████, village heads have in some cases called individuals to meetings at their home ostensibly to discuss community empowerment and farming

³⁶ Presidential Staff Office and Ministry of Environment and Forestry (Indonesia), "Strategic Environmental Assessment (SEA) on Sustainable Exploitation and Management Policy on Kendeng Mountains: Stage II, Executive Summary," December 2017, p.5.

³⁷ Ibid, p.4; recommendations on mitigation of disaster risk, p.7

³⁸ Ibid, p.5

³⁹ Ibid, p.8-10

⁴⁰ Undang-Undang No. 32 of 2009, Article 14(a).

⁴¹ Government Regulation No.27 of 2012, Article 9(1)-(5).

⁴² Performance Standard 1, paragraph 19.

practices. During these meetings, the village head gathered signatures from the attendees and took photocopies of their national identification cards. It is alleged that these signatures and copies of individual IDs were then provided to the company as falsified evidence of consent to the development of the project.

No Free Prior and Informed Consent (FPIC) of affected Indigenous Peoples

36. Performance Standard 7 (PS 7) recognises that there is no universal definition of the term “Indigenous Peoples” but sets out a number of criteria considered to be indicators of an Indigenous People for the purposes of applying the Performance Standards.⁴³
37. The Samin people, or Sedulur Sikep communities, are self-identifying Indigenous Peoples who satisfy these criteria. The Samin have also received external recognition of their culture by the Indonesian Ministry of Culture.⁴⁴ The Samin people have a clear collective attachment to the geographically distinct habitat of Kendeng Mountain, with land in the area under their customary use. The Samin are culturally distinct from mainstream Javanese and Indonesian ethnicities and societies, maintaining their own traditional education institutions and socio-political structures. For example, members of the Samin communities place little value upon documents such as national identification cards and passports as they primarily participate in their own distinct cultural institutions. The Samin people also internally communicate using sub-dialects of Javanese in a manner that is distinct to their communities.⁴⁵
38. The agricultural land located around the prospective project site is farmed by the Samin and considered their ancestral territory. Open pit limestone mining at the project site will destroy Kendeng Mountain, a sacred Samin site, almost entirely. The Samin are therefore “Affected Communities of Indigenous Peoples,” which should trigger the application of PS 7. PS 7 is also applicable to communities comprised of multiple ethnicities where Indigenous Peoples cohabit in the same communities as people of non-Indigenous ethnicities, as is the case in Kendeng.⁴⁶
39. PS 7 requires an engagement process with Affected Communities of Indigenous Peoples. This process must include “stakeholder analysis and engagement planning, disclosure of information, consultation and participation, in a culturally appropriate manner,” with the involvement of Indigenous Peoples’ representative bodies and organizations, as well as members of affected indigenous communities.⁴⁷ HeidelbergCement has not engaged the Samin community or ████████ in a manner consistent with the PS.
40. Over and above the requirement for this engagement process, for projects adversely impacting Indigenous Peoples, PS 7 requires a process of Free Prior and Informed Consent (FPIC) with the Affected Communities of Indigenous Peoples with regard to project design, implementation and expected outcomes if these are associated with, inter alia:

⁴³ Performance Standard 7, paragraph 5.

⁴⁴ Media Indonesia, ‘Saminisme Ditetapkan Warisan Budaya Tak Benda Indonesia’, September 22, 2019.

<https://mediaindonesia.com/read/detail/260939-saminisme-ditetapkan-warisan-budaya-tak-benda-indonesia>

⁴⁵ See for example, Mareta, Y.A., “Language shift of Javanese and its impacts on the transformation of the Samin community,” *Man in India* 96(11): 371-384, December 2016 at p.371-2 for discussion of the specific form of Javanese used by the Samin as a cultural identity indicator.

⁴⁶ Performance Standard 7 Guidance Note, paragraph GN7.

⁴⁷ Performance Standard 7, paragraph 10

- Impacts on lands and natural resources subject to traditional ownership or under customary use; and
 - Significant impacts on critical cultural heritage that is essential to the identity and/or cultural, ceremonial, or spiritual aspects of Indigenous Peoples' lives, including natural areas with cultural and/or spiritual value such as sacred groves, sacred bodies of water and waterways, sacred trees, and sacred rocks.⁴⁸
41. The project, and particularly the mine, will have direct and significant adverse impacts on land and natural resources subject to the traditional ownership and customary use of the Samin communities. The Kendeng Mountains are considered by the Samin as having deep cultural and spiritual value.
42. Despite the impact on Indigenous land and natural resources, not only has the company failed to facilitate a process of FPIC, the Samin communities have been vocal and active in expressing their opposition to the project, including in direct communications with HeidelbergCement. They have gone to great lengths to demonstrate their rejection of the project, including demonstrations in Germany, and theatrical direct action in Indonesia, including protests in front of the Presidential Palace and placing their feet in buckets of concrete.⁴⁹ Yet, the company is ignoring this opposition and proceeding with its development plans.

Potential environmental damage and loss of ecosystem services

43. Performance Standard 6 (PS 6) recognizes that protecting and conserving biodiversity, maintaining ecosystem services, and sustainably managing living natural resources are fundamental to sustainable development.⁵⁰ Performance Standard 6 applies to critical habitats, which are areas with high biodiversity value, including habitats of significant importance to endangered species.⁵¹
44. The Presidential impact assessment makes it clear that mining activities in Kendeng will have a severe impact on biodiversity, threatening species and endemic wildlife and flora. The report notes that the mountains are home to several rare, protected animals that will face further degradation or even become extinct as a result of the mining activities in the area.⁵² The report finds that mining will also threaten the water supplies of the entire region.⁵³ The project should therefore trigger the application of PS 6.
45. PS 6 provides specific protections for ecosystem services, which include, inter alia, the products people obtain from ecosystems and cultural services (the nonmaterial benefits people obtain from ecosystems).⁵⁴ PS 6 requires companies to identify "priority ecosystems services," which are those services on which project operations are most likely to have an

⁴⁸ Performance Standard 7, paragraph 11; and Guidance Note, paragraph GN27.

⁴⁹ Open Democracy, "In Indonesia, the peasant struggle of Kendeng," July 11, 2017. <https://www.opendemocracy.net/en/in-indonesia-peasant-struggle-of-kendeng/>

⁵⁰ Performance Standard 6, paragraph 1

⁵¹ Performance Standard 6, paragraphs 5 and 16.

⁵² Presidential Staff Office and Ministry of Environment and Forestry (Indonesia), "Strategic Environmental Assessment (SEA) on Sustainable Exploitation and Management Policy on Kendeng Mountains: Stage II Executive Summary," December 2017, p.5

⁵³ Ibid

⁵⁴ Performance Standard 6, paragraph 2.

impact, and therefore, which result in adverse impacts to affected communities, and to avoid or minimize those impacts.⁵⁵

46. The value of the Kendeng Mountain springs to the subsistence and livelihoods of the local communities cannot be understated. According to community members, they have gathered water from at least 300 accessible freshwater springs in the Kendeng Mountain karst area. The local communities are reliant upon these springs and associated groundwater wells as their primary source of fresh water for consumption and agriculture. The complainants believe that it is inevitable that these water sources will be damaged or destroyed by the planned mining of the mountain.
47. If water resources are damaged by the mine to the extent feared by the complainants, they predict severe impacts on livelihoods and food security in the local area. For communities in the Sukolilo sub-district and Kayen sub-district (the proposed location of the factory), local irrigation water is not sufficient to support all farmers.
48. The Presidential environmental impact assessment estimates the economic loss that will be caused by the degradation of agricultural water supplies alone at 1.8 trillion Rupiah per year. It also estimates that communities will face a loss of 498 billion Rupiah per year if water sources for household needs are degraded.⁵⁶
49. There is no indication that the company is taking measures to avoid or minimize these adverse impacts in line with PS6.

D. Threats to Indonesian activists and need for confidentiality

50. In Indonesia, environmental activists are subject to well-publicized risks including violence at the hands of the state and or private actors, as well as arbitrary imprisonment.⁵⁷ In the final months of 2019, three prominent activists were murdered in North Sumatra. It is widely believed that their deaths were reprisals against their involvement with activism against major development projects.⁵⁸
51. [REDACTED]. They face continuing threats and surveillance from local authorities, federal intelligence police and security forces, including the police and military. Security forces and police have disrupted gatherings. Being associated with foreigners also poses a risk and federal immigration officials have been deployed on the

⁵⁵ Performance Standard 6, paragraph 24 and 25.

⁵⁶ Presidential Staff Office and Ministry of Environment and Forestry (Indonesia), “Strategic Environmental Assessment (SEA) on Sustainable Exploitation and Management Policy on Kendeng Mountains: Stage II Executive Summary,” December 2017, p.5, para 6 (a) and (b). The currency conversion rate is accurate as of May 22, 2020.

⁵⁷ Mongabay, ‘Watchdog denounces arrests of four anti-mining activists in Indonesia’, November 26, 2019. <https://news.mongabay.com/2019/11/indonesia-mining-activists-arrested-police/>

⁵⁸ For further information see, Paddock, R.C., “A Hard-Fighting Indonesian Lawyer’s Death Has Colleagues Asking Questions”, New York Times, October 24, 2019, available at <https://www.nytimes.com/2019/10/24/world/asia/golfrid-siregar-death-indonesia.html>

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The Guardian, “Murder of two journalists leads to arrest of Indonesian palm oil boss,” November 10, 2019.

<https://www.theguardian.com/world/2019/nov/10/of-two-journalists-leads-to-arrest-of-indonesian-palm-oil-boss>

ground in Pati in recent months. It is believed this was a reaction to foreign journalists accessing the communities. The company itself has also been responsible for intimidation during the administrative litigation seeking to invalidate the mining license.

52. As such, we reiterate our earlier request that the identity of the complainants remain strictly confidential.

Diagram 1: IFC's material exposure to the project affecting the complainants

HeidelbergCement benefits from a general revolving credit facility to support its activities, to which Raiffeisen Bank International contributed €150 million. IFC holds an equity stake in Raiffeisen Bank International.

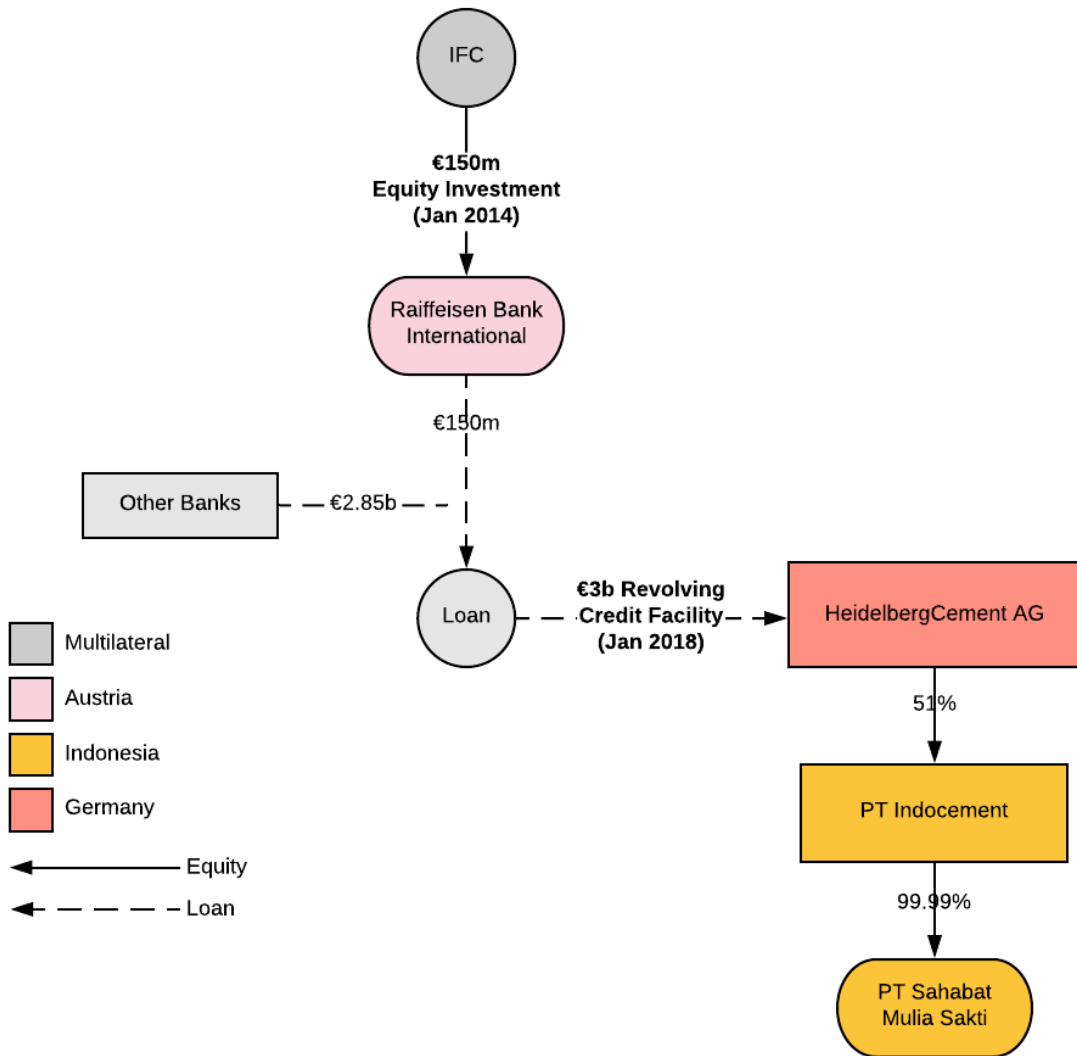


Diagram 2: Ownership structure of limestone mine and cement factory affecting the complainants

German company HeidelbergCement is the majority owner of the project through Indonesian subsidiaries, PT Indocement, and PT SMS.

