

JULY 2025

Compliance Investigation Report

CAO Investigation of IFC's Environmental and Social Performance over Investments in Axzon, Ukraine

About CAO

The Office of the Compliance Advisor Ombudsman (CAO) is the independent accountability mechanism of the International Finance Corporation (IFC) and Multilateral Investment Guarantee Agency (MIGA), members of the World Bank Group. We work to facilitate the resolution of complaints from people affected by IFC and MIGA projects in a fair, objective, and constructive manner, enhance environmental and social project outcomes, and foster public accountability and learning at IFC and MIGA.

CAO is an independent office that reports directly to the IFC and MIGA Boards of Executive Directors. For more information, see www.cao-ombudsman.org.

About the Compliance Function

CAO's compliance function reviews IFC and MIGA compliance with environmental and social policies, assesses related harm, and recommends remedial actions where appropriate.

CAO's compliance function follows a three-step approach:

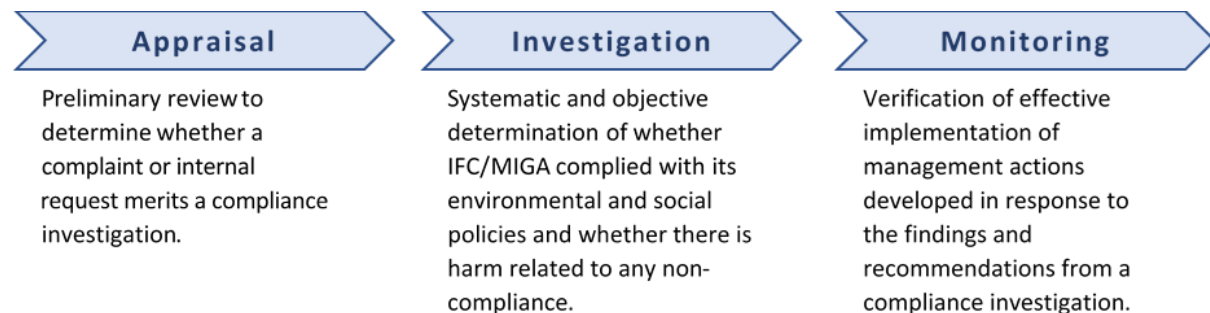


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Acronyms and Abbreviations

AIP	2012 Access to Information Policy
AMR	Annual Monitoring Report
BTOR	Back to Office Report
CAO	Office of the Compliance Advisor Ombudsman
E&S	Environmental and Social
EDIF	Environmental department at Ivano-Frankivsk administration
EHS	Environment, Health and Safety
EIA	Environmental Impact Assessment
ESIA	Environmental and Social Impact Assessment
EI	Ecological Inspection Division
ESAP	Environmental and Social Action Plan
ESMS	Environmental and Social Management System
ESRP	(IFC) Environmental and Social Review Procedures
ESRS	Environmental and Social Review Summary
EU	European Union
FAO	Food and Agriculture Organization
GIIP	Good International Industry Practice
Global G.A.P	Global Good Agricultural Practice
ha	hectare
IFC	International Finance Corporation
IPPC	Integrated Pollution Prevention and Control
Mammalian Livestock Guidelines	2007 World Bank Group EHS Guidelines for Mammalian Livestock Production
MIGA	Multilateral Investment Guarantee Agency
MMR	Manure Management Systems Regulation, 2006, Ukraine (National Standard БНТП-АПК-09.06 “Systems for the removal, treatment, preparation and usage of manure”)
MoHP	Ministry of Health Protection
NECU	National Ecological Centre of Ukraine
NGO	Non-governmental organization
OHS	Occupational Health and Safety

PFR	Pig Farm Complex Regulation, 2005, Ukraine (National Standard BHTП-АПК-02.05 “Pig farms (complexes, farms, small farms)”
PS	Performance Standard (IFC)
RTP	Road Traffic Policy
SEE	State Ecological Expertise
SSEE	State Sanitary Epidemiological Expertise
SSV	Site Supervision Visit
SPZ	Sanitary Protection Zone
TOR	Terms of Reference
WBG	World Bank Group
WHO	World Health Organization
WWTP	Waste Water Treatment Plant

Executive Summary

This CAO investigation responds to a community complaint filed in 2014 alleging environmental and social (E&S) impacts related to IFC's investments in Axzon, a vertically integrated pig production company. The complaint, supported by the NGO National Ecological Centre of Ukraine (NECU), raised concerns about three farm operations in Western Ukraine with regard to air and water pollution, water extraction, road-related impacts, and stakeholder engagement including access to environmental information. CAO's investigation finds IFC non-compliant with its E&S policies across several of these issues. Since IFC exited the investment in 2021, CAO makes limited recommendations at the project and institutional levels.

IFC Investment

In 2013, IFC approved two investments in Axzon—an equity investment of approximately US\$23 million and a senior loan of over US\$47 million. Ukraine's pork market was fragmented, and IFC's objective was to support Axzon's EUR148 million expansion program which entailed doubling its sow and finisher capacity, primarily in Ukraine, and enhancing its biogas operations in Poland. IFC assessed the investment, which involved multiple operations across several countries, as category B, meaning it presented limited and mitigable environmental and social risks and impacts.

The Complaint

In February 2014, CAO received a complaint from residents of villages located 1-3 km from three farms operated by Axzon's Ukrainian subsidiary, Danosha. The complaint asserted that Luka, Delievo, and Lany farms were operating in noncompliance with IFC Performance Standards 1, 3, 4, and 6, creating adverse E&S risks and impacts as follows:

- **Access to environmental information and disclosure:** the complainants allege they lacked access to environmental information, particularly about farm capacity, waste production and waste management, and access to and public disclosure of environmental impact assessments (EIAs) for the three farms.
- **Stakeholder engagement and grievance mechanism:** the complaint asserts that stakeholder engagement was inadequate throughout project planning, development, and operations, with complainants unable to participate in public meetings on the EIAs.
- **Air and water pollution, and soil contamination:** the complaint states that the IFC client's manure management and manure spraying for agricultural purposes have caused air pollution, strong odors, and risks of water and soil contamination, all affecting public health.
- **Water extraction:** the complainants note the drying of wells and groundwater depletion in the project area, which they attribute in part to water extraction by Axzon farms.
- **Halych National Nature Park:** the complaint raises concerns about potential impacts on the nearby park and failure to consult with representatives of the protected area.
- **Road-related impacts:** the complaint alleges that farm vehicle traffic caused access problems, land encroachment, structural damage to buildings, and dust emissions.
- **Land use and compensation:** the complaint asserts that Axzon failed to ensure prior agreement and adequate compensation for private land plots used for its operations.

CAO found the complaint eligible for further assessment in March 2014, and subsequently convened three mediation processes between the complainants and Axzon. As the parties could not reach agreement, the case was transferred to CAO compliance for appraisal in March 2017. Several complaint issues were closed at appraisal stage and are not considered in this investigation. These are: alleged impacts on Halych National Nature Park; alleged impacts from road encroachment on private property; land use and associated compensation; and general concerns over the client's stakeholder engagement and grievance mechanism.

In April 2018, CAO launched its compliance investigation into the remaining complaint issues. During the investigation, two significant events took place: IFC's financial relationship with Axzon ended in June 2021, and Russia's invasion of Ukraine in February 2022, resulting in a temporary suspension of CAO's work in the country.

CAO Analysis and Findings

Pre-investment Due Diligence

CAO's analysis of IFC's pre-investment E&S due diligence revealed significant shortcomings:

- **Limited E&S due diligence review focused on Ukrainian operations:** Despite IFC's objective to support Axzon's expansion in Ukraine, there is no evidence that IFC assessed E&S risks specific to Ukrainian facilities during due diligence. Moreover, the regulatory context in Ukraine required greater scrutiny than the client's operations in other countries at the time, which were covered by EU regulations. Despite these factors, the project Environmental and Social Action Plan (ESAP) that IFC agreed with Axzon did not address specific environmental gaps for the client's farm-level facilities.
- **Lack of Review of Farm EIAs:** CAO found no evidence that IFC ensured that its client conducted the required ESIs for new developments in Ukraine, nor that IFC reviewed environmental audits for existing farm operations. Specifically, there is no evidence that IFC reviewed the EIAs for the Delievo and Luka farms, which were under construction at the time, or assessed anticipated emissions and/or discharges to determine whether and how they would meet World Bank Group EHS Guidelines. CAO concludes that IFC did not support the client effectively in anticipating and addressing specific risks and impacts through review of relevant EIAs.
- **Review of EIA disclosure and stakeholder engagement processes:** IFC's pre-investment due diligence did not address community consultations on E&S impacts for specific facilities, and CAO finds available records insufficient to demonstrate client compliance with national and IFC requirements. CAO found no evidence that IFC reviewed consultations for the Delievo and Luka farms, which were undergoing construction, or verified local disclosure of EIA documents as required by Performance Standard 1. Despite IFC's claim that consultations and disclosures met legal requirements, CAO found no supporting evidence.
- **Assessment of risks to community health, resource efficiency, and pollution prevention:** IFC's investment appraisal failed to address key community and public health risks associated with Axzon's operations in Ukraine, despite IFC having knowledge of existing E&S complaints against the client. The potential for pig farms to impact community

health and the environment are well-documented. In this case, CAO identified five areas of potential concern including management of manure, carcasses, and wastewater, water extraction and use, and road-related impacts. In all these areas, CAO identified some shortcomings in IFC's due diligence. For example, there is no evidence that IFC reviewed manure management plans for the farms under construction, and due diligence records lack details on manure management, water extraction impacts, and road-related impacts.

- **IFC disclosure requirements:** IFC failed to comply with its Access to Information Policy regarding the disclosure of relevant EIAs on its website (para. 31(a)vi).

For the reasons outlined above, CAO finds that IFC's pre-investment review was not commensurate with the nature and scale of the business activity, and with the level of E&S risks (Sustainability Policy, para. 26). Moreover, there is no indication that IFC assured itself that the client could be expected to meet the requirements of the Performance Standards (PS1, PS3, and PS4) within a reasonable period (Sustainability Policy, para. 22). Finally, CAO found that IFC did not verify that the E&S risks and impacts of operations in Ukraine were adequately identified through the review of EIAs and addressed in the client's E&S Management System (Sustainability Policy, para. 27 and 28).

Supervision

CAO's analysis of IFC's supervision (2013-2021) found ongoing shortcomings, particularly during the initial five years. While supervision improved from 2019 onwards, IFC's supervision deficiencies during 2013-2018, which compounded the gaps in its pre-investment due diligence, prevented an adequate assessment of project risks and impacts in compliance with PS requirements. IFC's continued approach of evaluating the client at the corporate level resulted in inadequate attention to farm-level operations.

- **Inadequate and untimely reviews of AMRs:** IFC's review of the client's Annual Monitoring Reports (AMRs) from 2014 to 2018 was inadequate and untimely, with no AMR requested for 2013 and only two out of four IFC reviews recorded. CAO finds that the reviews were not timely enough for effective supervision, and notes that IFC did not provide concrete feedback to the client until 2019. This lack of consistent supervision and feedback was a missed opportunity and contrary to IFC's supervision procedures.
- **Ineffective supervision of Ukrainian operations:** IFC's supervision of Axzon's Ukraine operations failed to address recurring community grievances with its client. Axzon's AMRs dating from 2016 reported numerous complaints related to odor, water pollution, and road impacts. However, IFC did not address these recurring complaints until 2019, when it noted the high grievance levels and asked the client to take action.
- **Deficient review of environmental monitoring data:** Between 2014 and 2018, IFC did not adequately review key farm-level environmental data in order to assess the project's E&S risks and potential impacts on communities. Despite conducting limited analysis, IFC rated the client's E&S performance as Satisfactory or Excellent during these years. However, CAO found that the client's AMRs lacked environmental monitoring data relevant to pig farm operations and that the reports included identical air emissions data for several Ukrainian farms over several years. Bans imposed by Ukraine's government

on Environmental Inspections (EIs) of farms from 2015-2018 further hindered assessment of the client's E&S performance, yet IFC's records did not reference these bans until 2019. Additionally, CAO found no evidence that IFC reviewed relevant client's EIAs for Delievo Farm's expansion in 2013 and Luka Farm's new incinerator in 2017 in order to verify whether corrective actions were needed.

- **Assessment of risks to community health, resource efficiency, and pollution prevention:** IFC's supervision of Axzon's operations in Ukraine made limited mention of community and public health risks. CAO identified five areas where supervision actions would be expected under IFC's Sustainability Framework. These included management of manure, carcasses, and wastewater, water extraction, and road traffic-related impacts. Despite initial efforts, IFC did not confirm effective implementation of manure management systems, address complaints about manure spraying, or verify carcass management practices against PS3 requirements. IFC also failed to request water quality monitoring data and to ensure that corrective measures reported by the client to address ammonia exceedances in groundwater were effective. CAO considers IFC's supervision of water extraction impacts inadequate, and notes that IFC did not assess road-related impacts despite numerous grievances reported by the client.

For the reasons outlined above, **CAO finds that IFC supervision was not compliant with its responsibility to ensure through its supervision that business activities IFC finances are implemented in accordance with PS requirements (Sustainability Policy, para. 7). Moreover, CAO finds that for the first five years of its investment (2013-2018), IFC was not compliant with Sustainability Policy requirements to provide regular, adequate, and effective supervision (para. 45). Finally, CAO finds that IFC's supervision of the client's manure and wastewater management, and potential impacts related to air, water, and soil pollution at the three farms subject to this complaint, did not provide assurance that the client's operations were being implemented in accordance with PS3, PS4, and GIIP and with its responsibility under the Performance Standards Overview (para. 5) to comply with applicable national law.**

Harm to complainants

CAO's investigation, which included a field trip to Ukraine in 2018, finds indications of Harm on the health and wellbeing of community members living near the farms subject to the complaint that may be attributed to the project. These potential Harms include:

- **Manure management:** Shortcomings in IFC's supervision of manure management and distribution at the three farms, particularly Delievo and Lany, mean that there is insufficient information to demonstrate that the client's manure management was adequate. CAO concludes there are indications of Harm due to excessive odor in Delievo. Regarding Luka Farm, client reports of ammonia exceedances in groundwater near the lagoons lead CAO to conclude there are indications of Harm to complainants.
- **Carcass transport and management:** Given IFC's inadequate due diligence and supervision of excessive odor and disease risks from carcass storage and transport, and the client's observed practice of not storing carcasses in refrigerators, CAO finds that there are indications of Harm from inadequate sanitary hygiene and excessive odor.

- **Wastewater management:** Given the shortcomings in IFC's supervision of the client's systems and monitoring data, it is plausible that there was or could be environmental impacts and contamination of the Burkach River linked to Luka Farm. It is also possible that wastewater from the other farms subject to the CAO complaint could be sources of water pollution, given the inadequacy of the client's monitoring practices.
- **Water extraction and use:** Water shortages near Delievo Farm may be linked to the client's operations, but evidence is insufficient to confirm that the IFC client's water use harmed Delievo residents. Shortcomings in IFC's due diligence and supervision, along with the lack of water use baseline and cumulative impact studies, contribute to this uncertainty.
- **Road-related impacts:** Given that large machinery creates dust, it is likely that there were dust impacts caused by the passage of farm trucks. However, there is not sufficient evidence to assess and confirm the extent of such dust nuisance and related Harm on communities.

Recommendations

The CAO Policy (para. 120 (c)) provides that where CAO finds non-compliance and related Harm, CAO makes recommendations for IFC/MIGA to consider when developing a Management Action Plan (MAP). Recommendations may relate to the remediation of project-level non-compliance and related Harm, and/or steps needed to prevent future non-compliance, as relevant in the circumstances.

Project level recommendations: Given the context in Ukraine and that IFC exited this investment in 2021, CAO acknowledges the challenges IFC faces in engaging with its former client. Consequently, CAO is proposing only one project-level recommendation in this case, considering the findings of non-compliance and potential adverse impacts to local communities:

1. IFC should consider approaching its former client, potentially utilizing IFC Advisory Services, to collaboratively address and resolve the shortcomings identified in this investigation related to the complaint issues raised by communities.

At the same time, CAO notes that if IFC engages again with this client, it should pay attention to the deficiencies identified in this case in the management and monitoring of environmental risks and impacts associated with large-scale pig farms.

Systemic-level recommendations: CAO has made recommendations in recent CAO cases (Awba, Salala, and Bridge-01) regarding the need for site-specific E&S due diligence and supervision including the review of relevant ESIs before the Board approves a project. In response, IFC has made changes to its ESRP (2025) that entail significant progress by helping to clarify the scope of IFC's due diligence and supervision and that also help address the underlying causes of noncompliance found in this report. However, CAO recommends one additional measure:

2. Develop guidance for IFC staff (i.e., through a tip sheet or the equivalent) on due diligence and supervision of corporate loan investments to complement the ESRP, to ensure that:

a. Local risks and impacts at site level are adequately assessed and monitored by reviewing relevant environmental data and parameters. This may require revising tip sheets on how legal agreements, annual reporting templates, and ESAP items are drafted.

b. Concerns from local community members that emerge during the life of the investment are considered by IFC in a timely fashion, as part of IFC's supervision of the project, and that timely resolution is supported.

Next Steps

Based on the findings of this compliance investigation, and in accordance with the CAO Policy, IFC will prepare for Board approval a Management Action Plan to address the findings, following consultation with the former client and the complainants.

CAO will publish the investigation report on its website, in English and Ukrainian, at <https://www.cao-ombudsman.org/cases>.

1. Background

1.1 IFC Investment

Axzon is a pig farming and meat processing group headquartered in Denmark, with operations in Poland, Ukraine, and Russia. The company, through its Ukrainian subsidiary, owns around 10 pig production farms,¹ a biogas plant, and over 11,000 hectares of farmland in the Ivano-Frankivsk region of western Ukraine. IFC's investment supported the group's operations in the region and the expansion of its operations across Ukraine. The total project cost was estimated at EUR148 million.

IFC's investment in Axzon (the 'client') was approved in May 2013. It covered two distinct IFC business activities: (i) an equity investment, dated May 2013, of up to DKK134,137,081 (approximately US\$23 million) in Axzon; and (ii) a senior loan, dated July 2013, of up to EUR36 million (over US\$47 million at the time) to Axzon and all its subsidiaries (including the Ukraine subsidiary Danosha). IFC maintained the loan to Axzon and its subsidiaries until June 2017. In August 2016, IFC committed to an additional loan of EUR10 million, but it was canceled prior to disbursement. In 2018, Axzon Group was renamed "Goodvalley"² and Danosha became Goodvalley Ukraine.³ IFC held the equity investment in Axzon until June 2021, when it exited the project and its relationship with the client ended.

At the time of IFC's investment, Axzon was owned by Polen Invest A/S, a Danish holding company owned by 90 Danish pig farmers. The IFC client had over 30 pig production farms in Poland in addition to those in Western Ukraine and also owned slaughtering and meat processing facilities in Poland and Denmark, eight biogas plants in Poland, and one in Ukraine.

The purpose of IFC's investment was to support Axzon's EUR148 million investment program for its expansion and acquisitions, primarily in Ukraine, and to support the operations of the Poland biogas plants. During its due diligence, IFC noted that Axzon planned to acquire a large pig farm in Ukraine to double its sow and finisher capacity⁴ and characterized the investment as an attractive opportunity to invest in a fast growing and profitable pork production business, with strong growth potential in Ukraine's fragmented and inefficient pork market. IFC also noted the client's plans to invest in Russia.⁵

CAO notes that IFC's investment in Axzon was complex since the client had multiple operations and assets, at different stages of development, across multiple locations and countries. Nevertheless, IFC classified its investments in Axzon as category B for environmental and social (E&S) risks.⁶ This meant that, in IFC's assessment, the client's operations raised limited and readily mitigated E&S issues covered by IFC's Performance Standard 1 (PS1) (Assessment and Management of Environmental and Social Risks and Impacts), PS2 (Labor and Working

¹ Data on the number of farms in Ukraine varies across IFC documentation. Internal documents discussing the investment in March 2013 refer to five farms in Ukraine, while the public summary refers to "around ten farms." See, IFC Environmental and Social Review Summary, February 2013, <https://officecao.org/4gVilc7>

² The new name has also been applied to the Group's subsidiary in Poland. See <https://officecao.org/3ShPFQs>

³ See, Goodvalley website, <https://officecao.org/4d3k276>

⁴ 'Finishers' are pigs ready for slaughter. See typology of pigs in footnote no. 13.

⁵ Axzon did ultimately invest in Russia.

⁶ The Sustainability Policy (2012, para. 40) defines Category B investments as: "Business activities with potential limited adverse environmental or social risks and/or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures." See <https://officecao.org/3WyfE9x>

Conditions), PS3 (Resource Efficiency and Pollution Prevention), and PS4 (Community Health, Safety, and Security).⁷ The application of these standards, which are binding on IFC clients, are analyzed in more detail in Section 3 below.

1.2 Complaint to CAO and Local Context

This investigation report responds to a complaint filed with CAO in February 2014⁸ alleging environmental and social impacts from the pig production operations of Axzon subsidiary Danosha Limited (Danosha) in the Ivano-Frankivsk region of Western Ukraine.

Villagers living 1-3km from three of the IFC client's farms—Luka (near Sivka-Voynylivska village), Delievo, and Lany (both located near villages of the same name)—brought the complaint with support from the NGO National Ecological Centre of Ukraine (NECU).

All three farms are located in areas where the main source of drinking water is wells fed by groundwater and in close proximity to the Dnister River, which supplies water for farming. Lany Farm is 10 miles from the Halych National Natural Park while Delievo Farm is located near limestone quarries, which are also notable water consumers.⁹ The manure Danosha produced at these pig farms was used for biogas production, with residuals stored in sealed lagoons to prevent spillage into water sources. This residual manure was also applied to Axzon-owned farmland during some seasons.¹⁰

The complaint asserts noncompliance with IFC Performance Standards 1, 3, 4, and 6 and adverse E&S risks and impacts as follows.¹¹ NECU, which in 2017 changed its name to EcoAction, has continued to assist the complainants for the past decade.¹²

- **Access to environmental information and disclosure:** the complaint raises concerns about access to environmental information, in particular regarding farm capacity, waste production and management, and access to and public disclosure of environmental impact assessments (EIAs) for the three client farms.
- **Stakeholder engagement and grievance mechanism:** the complaint asserts that stakeholder engagement was inadequate throughout project planning, development, and operations. Complainants say they were not given the opportunity to participate in public meetings on the EIAs for Lany and Luka Farms. The client allegedly held limited consultations with villagers residing closer to the farms and excluded residents from other villages facing potential impacts from farm odors and/or pigs/carcass transportation routes.
- **Air and water pollution, and soil contamination:** the complaint states that manure management and spraying have caused air pollution and strong odors together with risks

⁷ IFC, Axzon ESRS, Feb. 2013, <https://officecao.org/4gVilc7>

⁸ In March 2014, CAO found the complaint was eligible for further assessment. From 2014 through 2016, CAO convened three mediation processes between the complainants and Axzon. In March 2017, the case was transferred to compliance for appraisal, with this investigation initiated in April 2018. For more, see section 1.3.

⁹ CAO, Axzon Appraisal Report, April 2018, p.13, <https://officecao.org/4ki4saW>

¹⁰ IFC, Axzon ESRS, PS3 section, Feb. 2013, <https://officecao.org/4gVilc7>

¹¹ See, CAO Axzon-01 case page, <https://officecao.org/3EZdPvG>

¹² In 2017, the NECU split into two organizations: the Centre for Environmental Initiatives ("Ecoaction" or "Ecodiya") and NECU.

of water and soil contamination, which is affecting the health and well-being of neighboring communities.

- **Water extraction:** the complaint notes drying of wells and groundwater depletion which residents attribute partly to water extraction for the client's operations.
- **Halych National Nature Park:** the complaint raises concerns about potential impacts on the park and failure to consult with representatives of the protected area.
- **Road-related impacts:** the complainants argue that heavy farm vehicle traffic caused access problems, land encroachment, structural damage to nearby houses and buildings, and dust emissions that impacted public health.
- **Land use and associated compensation:** the complaint asserts that the client failed to secure prior agreement and offer adequate compensation for the use of private land plots in farm operations.

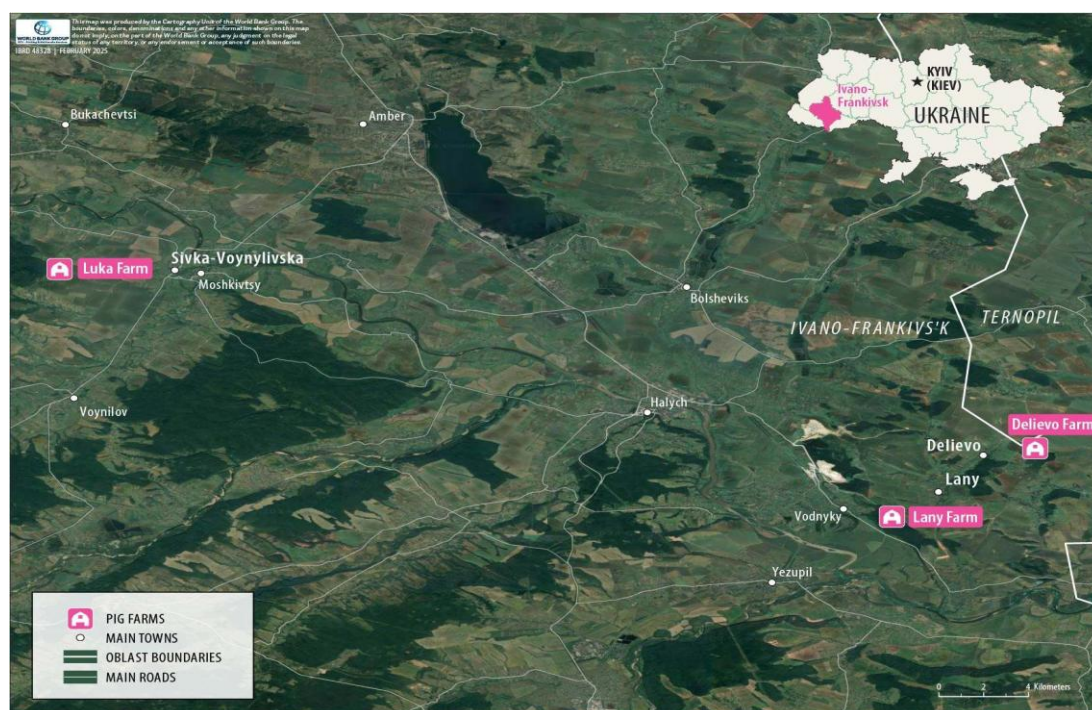
CAO notes that community members had expressed concerns about the client's activities before lodging the complaint with CAO in 2014. In 2013, IFC's due diligence documentation recorded negative views among some community members related to Danosha's deficient public consultation as well as farm-related pollution and odor during the transportation and spreading of manure.

The client pig operations at Lany and Luka were built on existing farm sites whereas Delievo was a greenfield development. Lany farm was completed by 2012 with a capacity of 11,900 pigs (finishers, i.e., animals ready for slaughter). An EIA for Delievo Farm was prepared in 2009 with a capacity of 11,900 finishers and construction started in 2010. In 2013, Axzon revised the projected farm capacity, resulting in an updated EIA and a new farm capacity of 4,000 sows and 23,700 weaners (younger pigs), with construction on the greenfield site completed by 2014. Construction at Luka farm was completed in 2015 with capacity for 24,000 sows, piglets, and weaners.¹³

Figure 1 presents an overview of the area, the three IFC client farms, and the surrounding villages. Annex A contains more detailed maps with precise distances between the farms and the complainant villages.

¹³ Typology of pigs as per the 2005 Pig Farm Complex Regulation (PFR): Boar (кнур пiдник) is a male adult pig; Sow (свинматки) is a female adult pig without piglets; Sow without piglets (свинматки супороснi i холостi) is a sow after piglets' separation; Sow with piglets (пiдсиснi матки з поросятами) is a sow with piglets from birth (until they reach a certain weight or up to 45-60 days after birth); Piglets (поросята сисуни) are young pigs from birth until separation from the sow, once they reach a weight of between 7-12kg, typically 26-35 days or 45-60 days after birth (depending on the management system applied at the farm); Weaners (вiдлученi поросята) are young pigs following separation from the sow (7-12 kg) until the age of three to four months (weighing 30-35 kg); Finishers (свини на вiдгодiвлi) are pigs for slaughter from the age of three to four months and with a weight from 30-35kg up to 112kg; Finishers for replacement (ремонтний молодняк) are selected pigs for replacement of mature pigs (from purchase to maturity).

Figure 1. Overview of the three client farms subject to complaint and nearby villages



Source: Google, 2017. This map was produced by the Cartography unit of the World Bank.

1.3 CAO Complaint History and Compliance Investigation Process

1.3.1 Complaint history

In March 2014, CAO found the complaint eligible for further assessment.¹⁴ From 2014 through 2016, CAO convened three mediation processes between the complainants and Axzon. Only one of these, concerning a single landowner, concluded in an agreement. As the parties could not reach agreement in the other two processes, CAO mediation ended in August 2016, and the case was transferred to CAO compliance for appraisal in March 2017.¹⁵ In February 2017, the complainants submitted additional information to CAO to substantiate aspects of their original complaint.¹⁶ The update was considered in the compliance appraisal and investigation together with the original complaint, and covers villagers' concerns and allegations over:

- **Lack of transparency and public disclosure**, including lack of responses from Danosha to requests from NGOs and community members for information on farm capacity and pollution monitoring data.
- **Excessive air pollution** (methane) due to inadequate manure management.

¹⁴ CAO Axzon-01 Assessment Report, August 2014, <https://officecao.org/3CYOr90>

¹⁵ CAO Dispute Resolution Report, March 2017, <https://officecao.org/4iyRFzd>

¹⁶ "Additional information on the complaint to CAO from the communities of villages Delievo, Sivka-Voynylivska and Lany of Halych and Kalush districts of Ivano-Frankivsk region", February 15, 2017. CAO also notes that a letter dated November 11, 2016, sent from "local residents of Delievo, Sivka-Voynylivska, Moshkivtsi and Lany villages" to the IFC Head of Office in Ukraine and Belarus raised the same concerns.

- **Soil contamination** due to allegedly uncontrolled and inadequately treated manure application, including incomplete and undisclosed analysis of pollutants in manure.
- **Misleading data on farm capacity and turnover**, together with minimal buffer zones between farms and villages, which complainants argued cause pollution risks to nearby communities. Additional information submitted to CAO emphasized villagers' continuing concerns in relation to Delievo Farm's capacity.
- **Excessive water use** which complainants allege has led to water depletion in abstraction wells used by communities.
- **Underestimated pollutant levels** (including for methane and ammonia) which complainants allege Danosha submitted as part of permit applications.
- **Land use** and alleged breaches by the client of terms of land use agreements made with community members.
- **Absence of necessary permits or deviations** from them.

In April 2018, CAO finalized its appraisal report, concluding that an investigation was warranted. However, several complaint issues were closed at the appraisal stage and as a result are not considered in this investigation. These issues are: alleged impacts on Halych National Nature Park; alleged impacts from road encroachment on private property; land use and associated compensation; and general concerns over the client's stakeholder engagement and grievance mechanism.¹⁷

The complaint issues retained for this CAO investigation include:

- Lack of client consultation and information disclosure over the Environmental Impact Assessments for the three farms
- Water use by all three farms
- Odor and air pollution due primarily to manure management¹⁸
- Soil and water contamination related to manure management
- Road traffic impacts.

Complainants expressed particular concern about the revised EIA for Delievo farm, alleging the EIA assessment may not reflect the E&S impacts from changing the type and expanding the number of pigs to be raised, particularly regarding manure production and management, water use, and air pollution.

The original complainants live in Sivka-Voynylivska village in Kalush district, and in Delievo¹⁹ and Lany villages in Halych district. Villagers from two other villages—Vodnyky in Halych district and Moshkivtsy in Kalush district—joined the earlier CAO dispute resolution process as they had similar complaints. For this investigation, CAO has considered these villagers' complaints when

¹⁷ CAO Axzon-01 Appraisal Report, April 2018, <https://officecao.org/4ki4saV>

¹⁸ During the investigation complainants raised the issue of carcass management as another factor causing pollution and health impacts.

¹⁹ Delievo can also be spelled as Deliyev, Deljeve, or Delieve.

relevant to the investigation's TOR, alongside those of the original Sivka-Voynylivska, Delievo, and Lany complainants.

During this investigation two additional significant events took place. First, in June 2021, IFC's financial relationship with Axzon ended with the sale of its equity investment, which limits IFC's ongoing leverage over the former client. Second, on February 24, 2022, Russia's invasion of Ukraine, which independently led to the delay of the CAO investigation.²⁰

1.3.2 CAO compliance investigation process

During the course of this investigation, the IFC and MIGA Boards of Executive Directors (the "Board") approved the IFC/MIGA Independent Accountability Mechanism (CAO) Policy (the "CAO Policy"), effective July 1, 2021, which replaced CAO's Operational Guidelines. To facilitate transition to the CAO Policy,²¹ CAO, IFC, and MIGA agreed to Transitional Arrangements. As a result, this investigation was finalized under the CAO [Operational Guidelines](#) (2013) while the new CAO Policy will apply to the preparation of IFC's response to the investigation and its associated Management Action Plan.

In accordance with the Operational Guidelines, CAO compliance investigations focus on IFC/MIGA and how these institutions assured itself/themselves of a project's environmental and social (E&S) performance. The purpose of a CAO compliance investigation is to ensure compliance with policies, standards, guidelines, procedures, and conditions for IFC/MIGA involvement, and thereby improve the institutions' E&S performance.

At issue is whether:

- The actual E&S outcomes of a project are consistent with, or contrary to, the desired effect of the IFC/MIGA policy provisions
- Failure by IFC/MIGA to address E&S issues as part of the appraisal or supervision resulted in outcomes contrary to the desired effect of the policy provisions.

In many cases, including this one, in assessing the performance of a project and implementation of measures to meet relevant requirements, it is necessary for CAO to review the actions of the IFC/MIGA client and to verify outcomes in the field. CAO has no authority with respect to judicial processes, and is not a court of appeal, a legal enforcement mechanism, or a substitute for international court systems or court systems in host countries.

1.4 CAO Investigation Methodology and Scope

1.4.1 Methodology

This investigation was conducted from 2018 until 2025, with delays caused by the invasion of Ukraine. It benefited from the advice of a Ukrainian environmental expert with 22 years of expertise in assessing and managing risks in the agribusiness sector, and on Ukrainian environmental laws relevant to agribusiness operations. In addition, CAO commissioned support from an environmental specialist with over 40 years of sustainable development and climate

²⁰ CAO suspended the complaint process for its cases in Ukraine (including the Axzon investigation) from February through October 2022. This investigation is one of several cases being completed this year (2025) that were delayed due to staffing limitations. See CAO website for details on this case, here: <https://officecao.org/3EZdPvG>

²¹ See (2021) CAO Policy: Transitional Arrangements. Available at: <https://bit.ly/3qaGZ1o>

change experience in multilateral development banks, private organizations, and other international organizations.

For this investigation report, CAO conducted:

- A review of IFC's project documentation and other project-related materials
- Interviews with IFC project staff and consultants, and with Axzon staff
- A review of materials submitted by complainants
- A visit to Ukraine in August 2018, in which meetings were held with: complainants and their representative Ecoaction; community members from Delievo, Lany, Luka, Moshkivtsi, Sivka-Voynylivska, and Vodnyky; the client's management team; and local and regional government officials from Ivano-Frankivsk. CAO also visited the client's facilities in Delievo and Lany.

CAO would like to thank all stakeholders, and in particular the complainants and their representatives, for their patience and cooperation during the investigation.

1.4.2 Terms of reference

This compliance investigation assesses how IFC assured itself during due diligence and supervision of the environmental and social performance of its client. In accordance with the terms of reference (TOR), CAO focused specifically on:

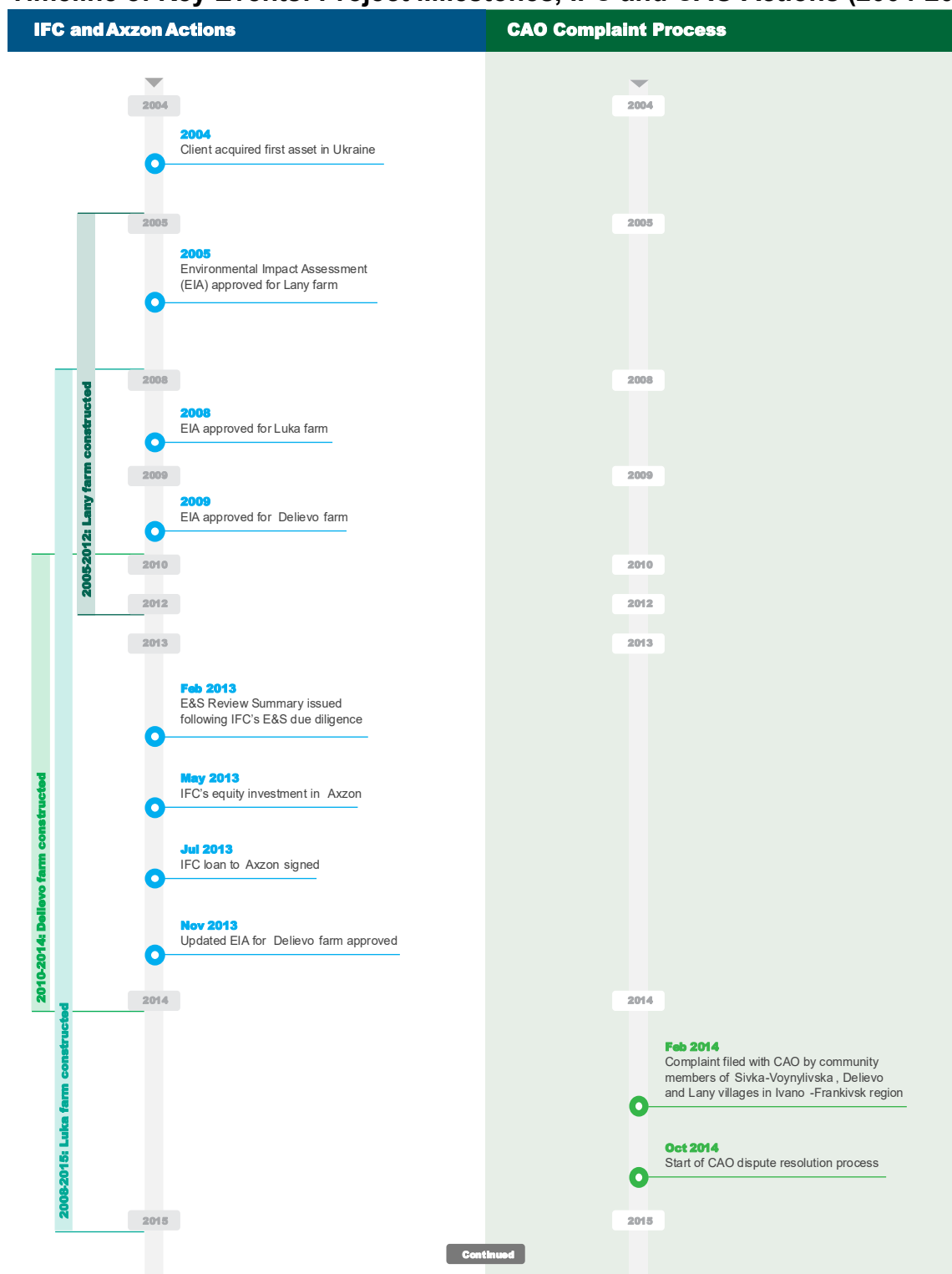
- IFC's review and supervision of the client's E&S Management System, including measures to ensure that procedures are in place to test for, and mitigate against, environmental pollutants
- IFC's review of (i) EIA documentation (including water extraction, carrying capacity, and manure management system) and (ii) associated consultation and disclosure, where relevant.²²

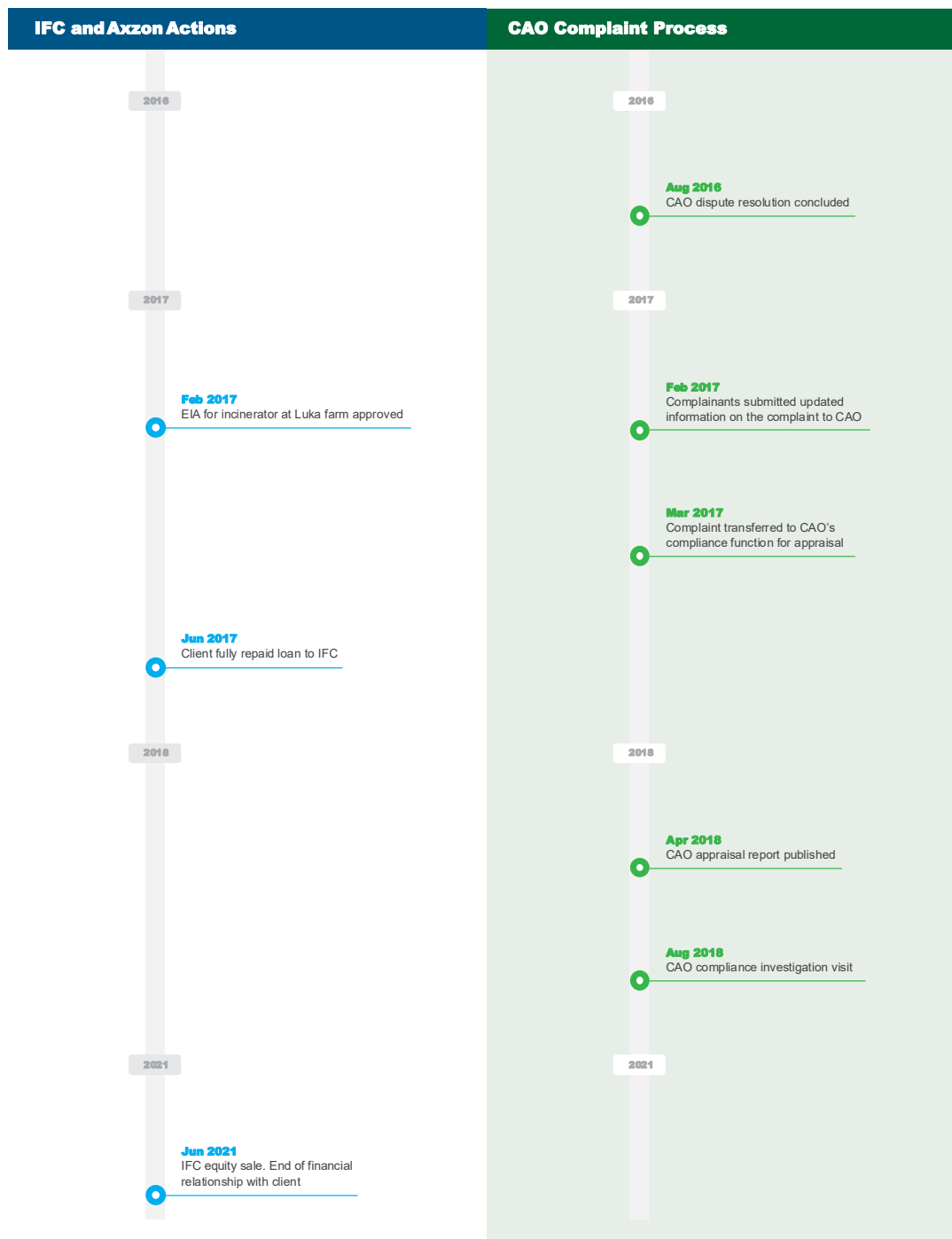
The TOR provide that, where relevant, CAO will also consider the underlying causes of any non-compliance found.²³

²² CAO, Terms of Reference for Compliance Investigation, Ukraine:Axzon-01/Halych and Kalush, April 2018, <https://officecao.org/4i0zTEX>

²³ Ibid.

1.5 Timeline of Key Events: Project Milestones, IFC and CAO Actions (2004-2021)





2. General Context: Environmental and Health Risks of Large-Scale Pig Farming

A large-scale pig farm is a complex operation. In relation to this case, key elements of farming operations that CAO assessed included the following:

- Facilities housing animals, which may include gestation barns, nursery pens, and finishing barns
- Water supply systems for animal consumption and pen cleaning
- Open lagoons, pits, or closed tanks to store slurry—a liquid mixture of manure, urine, and bedding material
- Incinerators or rendering facilities to dispose of dead animals
- Mechanical ventilation such as fans, ducts, and exhaust systems to maintain airflow and remove harmful gases including ammonia and methane from the barns
- Facilities such as slaughterhouses and meat processing plants
- Surrounding agricultural land where the manure is sprayed.

The three farms named in the complaint to CAO are considered large-scale²⁴ under European regulations and are some of the largest in Ukraine.²⁵ Each houses over 10,000 sows and/or piglets and Luka Farm also operates an incinerator.

Large-scale commercial pig farming can have significant environmental and health impacts.²⁶ These effects vary depending on the size of the operation, farming practices used, the techniques and technologies employed to manage waste, air emissions, and water discharges, and the farm's proximity to communities and sensitive habitats. Without proper treatment and disposal, air emissions, effluents, and waste can contaminate local soil, air, and water. In general, specific environmental and health concerns related to large-scale pig operations typically include the following:

- Wastewater pollutants, such as high concentrations of biological oxygen demand (BOD)²⁷ and chemical oxygen demand (COD) that if not properly treated can pollute local water

²⁴ EU defines intensive pig units as those with more than 2,000 places for production pigs (over 30 kg) or those with more than 750 places for sows. Directive 2010/75/EU of the European Parliament and of the Council of 24 November 2010 on Industrial Emissions (integrated pollution prevention and control), <https://officecao.org/3DUif6X> In Ukraine, owners of farms with capacity over 5,000 pigs are required to prepare a full-scale EIA for approval.

²⁵ See, Mykola Povod, et. al, "The influence of the size of the pig farm on the productivity of piglets and the efficiency of their breeding" Scientific Papers. Series D. Animal Science. Vol. LXVII, No. 2, 2024, p. 399, <https://officecao.org/3DUsAjm>

²⁶ See, for example: Thorne, Peter, "Environmental Health Impacts of Concentrated Animal Feeding Operations: Anticipating Hazards—Searching for Solutions," *Environmental Health Perspective*, 2006 Nov 14;115(2), pp. 296–297, <https://officecao.org/4j892Xx>; Collin Sage, "Environment and Food," Routledge, 2011, <https://officecao.org/3Y8ZoMI>

²⁷ The Biochemical Oxygen Demand (BOD) of raw piggery wastewater is typically significantly higher than the effluent standard, which can deplete oxygen in receiving waters and lead to the degradation of aquatic ecosystems. See, for example: Kornboonraksa, Thipsuree, et al, "Application of chemical precipitation and membrane bioreactor hybrid process for piggery wastewater treatment," *Bioresource Technology*. Vol 100, Issue 6, March 2009, 1963-1968, <https://officecao.org/3FPemkl>; Lee, Sang-Ah, et. al., "Stepwise treatment of undiluted raw piggery wastewater, using three microalgal species adapted to high ammonia," *Chemosphere*, Vol. 263, January 2021, <https://officecao.org/4jcbL2o>

sources, degrade aquatic ecosystems and reduce treatability for domestic water supply.²⁸ Slurry waste can contain antibiotics, hormones, and pathogens that may contaminate water supplies, affecting human and ecological health.²⁹

- Exhaust from ventilation of pig housing facilities and air emissions from open lagoons and pits typically include ammonia, which can irritate the human respiratory system and cause conditions including bronchitis, asthma, and other chronic respiratory diseases in farm workers and nearby communities.³⁰ Moreover, strong odors can cause respiratory problems, headaches, nausea, and eye or throat irritation. Long-term exposure to odors may worsen asthma, trigger chronic bronchitis, and reduce quality of life due to stress and sleep disturbances.³¹
- Pig farms produce a large amount of dust from animal bedding, feed, and manure, which can contain endotoxins. These toxic components of bacteria can trigger respiratory problems, inflammation, and lung damage for workers and local residents.³²
- Pig farming requires large amounts of water for the animals, cleaning facilities, and meat processing. This can place pressure on local water resources especially in regions already facing water scarcity.³³
- Large-scale pig farms can also be significant sources of methane, a powerful greenhouse gas derived from animal manure and digestion.³⁴

²⁸ For example, excess nitrogen and phosphorus can run off into rivers and lakes, causing algal blooms that deplete oxygen levels which could kill fish and generally decrease aquatic life. See, for example, United States Environmental Protection Agency, "Sources and Solutions: Agriculture," <https://officecao.org/3R0cwzw>

²⁹ Burkholder, Joann, et al, "Impacts of Waste from Concentrated Animal Feeding Operations on Water Quality," *Environmental Health Perspective* 2006 Nov 14; 115(2), pp. 308–312, <https://officecao.org/4hPCH72>

³⁰ Charavaryamath, Chandrashekhar and Singh, Baljit, "Pulmonary effects of exposure to pig barn air," *J Occup Med Toxicol*. 2006 Jun 6;1:10, <https://officecao.org/4l8neSc>

³¹ Tiantian Cao, Yunhao Zheng, and Hongmin Dong. "Control of odor emissions from livestock farms: A review," *Environmental Research* 225, May 2023, <https://officecao.org/43dPDjd>

³² McClendon, Chakia, et al, "Farm Animal Models of Organic Dust Exposure and Toxicity: Insights and Implications for Respiratory Health," *Curr Opin Allergy Clin Immunol*. 2015 Apr;15(2), pp. 137–144, <https://officecao.org/3E1e1dR>

³³ S.B. Little, et. al "Water consumption and wastage behaviour in pigs: implications for antimicrobial administration and stewardship," *Animal*, Volume 16, Issue 8, August 2022, <https://officecao.org/4hATdaK>

³⁴ Yang, Pan, "Carbon Footprint of the Pork Product Chain and Recent Advancements in Mitigation Strategies," *Foods*, 2023 Nov 22;12(23), <https://officecao.org/4l8hF6k>

3. Applicable IFC E&S Standards, Policies, and Practices

For this investigation, CAO assessed IFC's performance during E&S due diligence (ESDD) and supervision of the Axzon pig-farming project against its requirements under the 2012 Sustainability Framework, made up of the Policy on Environmental and Social Sustainability (the Sustainability Policy) and IFC Performance Standards (PS). In addition, CAO assessed IFC's performance against its 2013 and 2016 Environmental and Social Review Procedures (ESRP).

The Sustainability Policy defines IFC's responsibilities in supporting project E&S performance in partnership with its clients. It sets out how IFC conducts due diligence of E&S risks associated with a proposed project, and how projects will be categorized and supervised. It also requires IFC to identify and manage environmental and social risks and work with the client to continually improve their E&S performance.³⁵

During project implementation, IFC supervises the client's E&S performance against the environmental and social conditions and commitments agreed for the investment.³⁶ If the client fails to comply with its E&S obligations, IFC will "work with the client to bring it back into compliance, or if the client fails to reestablish compliance, IFC will exercise its rights and remedies, as appropriate."³⁷ If a client's business activity circumstances change and may result in adverse E&S impacts, "IFC will work with the client to address them."³⁸

3.1 General standards relevant to this investigation

IFC clients are required to follow the IFC Performance Standards, and take account of World Bank Group guidelines, that are relevant to the project. Regarding the complaint issues raised about IFC's investment in Axzon, the following PS are relevant:

- **PS 1: Assessment and Management of Environmental and Social Risks and Impacts.** Requires the identification and management of E&S risks and impacts, and a process for stakeholder disclosure and consultation, throughout the life of the project.
- **PS 3: Resource Efficiency and Pollution Prevention.** Requires project-related air emissions, water discharges, and storage of hazardous materials to meet standards set in the World Bank Group (WBG) Environmental Health and Safety (EHS) Guidelines.
- **PS 4: Community Health, Safety, and Security.** Requires clients to anticipate and avoid health and safety impacts to project-affected communities following good international industry practice (GIIP).
- **Environmental, Health, and Safety Guidelines.** The EHS Guidelines are technical reference documents that contain general and industry-specific examples of GIIP. They provide guidance to clients when applying GIIP in accordance with their responsibilities under PS3 and PS4. Two EHS Guidelines are particularly relevant to this case, the

³⁵ IFC 2012 Sustainability Policy, para. 15.

³⁶ IFC, 2012 Sustainability Policy, para. 45.

³⁷ IFC, 2012 Sustainability Policy, para. 24.

³⁸ IFC, 2012 Sustainability Policy, para. 45.

Guidelines for Mammalian Livestock Production³⁹ and the Guidelines for Annual Crop Production.⁴⁰

The Performance Standards also require IFC clients to comply with applicable national law.⁴¹ CAO has reviewed relevant Ukrainian national laws and regulations applicable to farms and the conduct of EIAs, in particular the Pig Farm Complex Regulation 2005 (PFR),⁴² the Manure Management Systems Regulation 2006 (MMR),⁴³ and a Ministry of Health Protection Order regulating Sanitary Protection Zones around pig farms. In addition, the Law on Ecological Expertise (1995), which was replaced in 2017 by the Law on Environmental Impact Assessment, regulates impact assessments and disclosure requirements.

3.2 Standards applicable to resource efficiency and pollution prevention topics

In this investigation, CAO analyzes in detail five complaint issues related to resource efficiency and pollution prevention in the context of social and environmental management of pig farms. For each of these issues, IFC Performance Standards requirements and/or WBG guidance are applicable, as detailed below:

- **Manure management:** The EHS Guidelines for Mammalian Livestock Production (“Mammalian Livestock Guidelines”) contain provisions on the application of manure as fertilizer. They state that such use of manure on agricultural land requires careful assessment of potential impacts due to the presence of hazardous chemical and biological constituents. The Guidelines also recommend that farm operators observe “internationally recognized guidance” on land requirements for livestock production units (LUs) per hectare to ensure manure is deposited over an appropriate area of land. They set parameters for nutrient balance provided by type of livestock, manure produced, and content of nutrients in the manure. They further recommend that manure storage facilities have capacity to hold 8 to 12 months of manure production, or as necessary to avoid over-application on farmland, and recommend several measures to manage potential impacts. Ukraine’s Manure Management Regulations (MMR) also contain detailed guidance, including on projections for quantities of manure generated by different categories of pigs. To prevent pollution, GIIP also provide detailed guidance on appropriate volumes of manure, the time period manure should spend in storing lagoons, and spraying rates.
- **Management of carcasses:** The Mammalian Livestock Guidelines state that “animal carcasses should be properly managed and quickly disposed of in order to prevent the spread of disease and odors ... Operators should implement carcass management and disposal arrangements, including the storage of carcasses until collection, using cooling if

³⁹ World Bank Group Environmental, Health, and Safety Guidelines for Mammalian Livestock Production, April 2007, <https://officecao.org/4gZcSRz>

⁴⁰ World Bank Group Environmental, Health, and Safety Guidelines for Annual Crop Production, March 30, 2016, <https://officecao.org/41rZvUa>

⁴¹ IFC Performance Standards Overview, January 2012, para. 5.

⁴² The PFR sets out different categories of pigs according to their sex, weight, and time spent separated from sows. БНТП-АПК-02.05 “Pig farms (complexes, farms, small farms)”.

⁴³ The MMR contain projections for manure generated by various categories of pigs as well as recommendations for storage and application of manure and related mitigation measures. БНТП-АПК-09.06 “Systems for the removal, treatment, preparation and usage of manure”.

necessary to prevent putrefaction.”⁴⁴ Recommended carcass management practices also include using a reliable and certified transport company approved by local authorities that deliver carcasses for rendering or incineration.

- **Wastewater management:** General requirements of PS3 (paras. 4 and 10 on pollution prevention including related to water) and PS4 (para. 5 on establishing control and prevention measures to avoid impact on community health) apply to this case. The EHS Guidelines refer to national regulations governing waste management, wastewater, and water quality issues, and the Mammalian Livestock Guidelines contain effluent level values for wastewater discharge.⁴⁵
- **Water extraction and use:** PS1 (para. 8) requires a project’s risks and impacts to be “identified in the context of the project’s area of influence”, which may encompass cumulative impacts. PS3 (para. 9) and the related Guidance Note 3 (paras. 25 and 26) state that when an IFC project is a potentially significant consumer of water, the client shall adopt resource efficiency measures that avoid or reduce water usage so as not to have significant adverse impacts on water access for other stakeholders. These measures should include the use of alternative water supplies or evaluation of alternative project locations.
- **Road related impacts:** PS1 (paras. 5 and 14) and PS4 (para. 5) require the client to identify risks and impacts and propose mitigation measures that are commensurate with their nature and magnitude. They also require these measures to favor the avoidance of risks and impacts over their minimization. According to the EHS guidelines, the most common pollutant involved in fugitive emissions is dust or particulate matter (PM), which may be released during certain operations, such as transport.⁴⁶

Alongside the Performance Standards, IFC’s 2012 Access to Information Policy (AIP) sets out the scope of information that IFC discloses to the public in relation to its projects.⁴⁷ CAO has considered its provisions where relevant to this investigation.

4. Project Pre-investment Due Diligence

This section evaluates IFC’s environmental and social performance during its pre-investment due diligence of the project, in relation to the complaint issues raised by residents living near the client’s pig farming operations. It lays out the process and requirements IFC must follow under the Sustainability Framework, summarizes IFC’s actions during due diligence in this case, and presents CAO’s analysis of IFC’s actions. ***Based on the evidence below, CAO finds that IFC was non-compliant with aspects of the Sustainability Policy, Performance Standard 1, and the Access to Information Policy during pre-investment due diligence of the Axzon investment.***

⁴⁴ IFC, EHS Mammalian Livestock Guidelines, pp. 4-5, <https://officecao.org/4gZcSRz>

⁴⁵ Idem, p. 14.

⁴⁶ WBG EHS Guidelines (2012), p.8.

⁴⁷ IFC 2012 Access to Information Policy, <https://officecao.org/4gWOMQX>

For this case, CAO examined the following aspects of IFC's pre-investment E&S due diligence to determine whether its actions met the requirements of the Sustainability Policy:

- IFC's appraisal documentation leading to publication of its Environmental and Social Review Summary and adoption with the client of a project E&S Action Plan (ESAP), and IFC's overall review and appraisal of the client's E&S Management System (ESMS) and E&S performance.
- IFC's review of existing E&S Impact Assessments (ESIAs) and associated consultation and disclosure processes.
- The implication of IFC's pre-investment due diligence on issues raised in the complaint as relevant to the CAO compliance investigation terms of reference outlined above.

4.1 IFC Pre-investment E&S Due Diligence Requirements

Before investing in a client, IFC conducts an appraisal aimed at assessing the potential E&S risks and opportunities associated with the investment.⁴⁸ The project is assessed in relation to the requirements of the PS, the WBG EHS Guidelines, and other GIIP.⁴⁹

For new investments, the Sustainability Policy requires IFC to conduct an E&S due diligence process "commensurate with the nature, scale and stage of the business activity, and with the level of environmental and social risks and impacts".⁵⁰ For business activities that already exist when IFC's invests, IFC reviews the client's existing ESMS and risk management practices as well as the client's E&S assessment for the project.⁵¹

IFC's due diligence involves investigation of the capacity, maturity, and reliability of the client's E&S corporate management system to effectively manage E&S performance, including its ability to enable current and future project compliance with the Performance Standards. IFC's ESRP also states that, when possible, IFC should consider the E&S performance of representative past and prospective projects to measure the effectiveness of the client's management system.⁵² To ensure that client operations meet PS requirements, corrective measures identified during IFC's due diligence process must be tailored to the specific investment and documented in an ESAP for the project.⁵³ Actions requiring client completion after IFC Board approval of the investment, commitment, or first disbursement are included in the ESAP⁵⁴, and the Sustainability Policy requires IFC to make these ESAP actions a necessary condition of its investment.⁵⁵

4.2 IFC Due Diligence Leading to E&S Disclosure and Action Plan

In late 2012 through early 2013, IFC conducted pre-investment due diligence of the proposed investments in Axzon, considering the equity investment and loan jointly.

Purpose of the project. Project documentation consistently describes the primary purpose and focus of IFC's investment as support for the client's large expansion of its operations in Ukraine.

⁴⁸ IFC 2012 Sustainability Policy, para. 21.

⁴⁹ IFC 2012 Sustainability Policy, para. 28.

⁵⁰ IFC 2012 Sustainability Policy, para. 26.

⁵¹ IFC 2012 Sustainability Policy, para. 27.

⁵² IFC ESRP (version 2013), section 3, para. 2.1.

⁵³ IFC 2012 Sustainability Policy, para. 28.

⁵⁴ IFC ESRP, (version 2013), section 3, para. 2.5.

⁵⁵ IFC 2012 Sustainability Policy, para. 28.

A secondary objective was the investment in biogas operations in Poland.⁵⁶ IFC's publicly available ESRS for the project⁵⁷ states it would support the Axzon Group's activities in the Ivano-Frankivsk region and expand its operations across Ukraine.⁵⁸ This focus was also confirmed by IFC in discussions with CAO.

IFC's July 2013 general-purpose loan of up to EUR36 million (over US\$47 million at the time) was intended to fund the Danish-headquartered Axzon Group and all country subsidiaries. The loan agreement states that the co-borrowers, including Ukrainian subsidiary Danosha, requested a loan from IFC to finance capacity expansions in Ukraine and the construction of biogas plants in Poland.⁵⁹

E&S standards. IFC's pre-investment E&S documentation presents a positive view of the client's E&S systems and its commitment to good practices. Internal review documents repeatedly express the view that Axzon follows industry and environmental best practices.

IFC's ESRS for the investment, completed in February 2013, states that the "proposed project is being developed in accordance with national (Poland and Ukraine) regulatory environmental, occupational health and safety (OHS) and social requirements and similar European Standards, by an experienced Sponsor committed to good E&S practices."

The ESRS also states that the client's newer farms were built using modern techniques and that all its farms (new and reconstructed) comply with European Union (EU) standards. The ESRS further notes that "for all farms, this means procedures in line with the EU IPPC [Integrated Pollution Prevention and Control] Directive"⁶⁰ describing in detail how industrial operations are required to prevent or control their pollution to stay within sector-specific norms.⁶¹ These standards are described as "similar to, but typically more stringent than the IFC Performance Standards requirements." However, CAO found no documented evidence that IFC reviewed the state of compliance of Axzon's existing farms with these EU standards, or with IFC's relevant Performance Standards.⁶² CAO notes that IFC apparently did not conduct such a review despite becoming aware in 2012 that the client had been the subject of E&S complaints in 2011 regarding its Ukraine operations. Serious issues raised included pollution of local rivers, illegal use of pesticides, disputes with local lessors, and foul odors.

ESMS assessment. In its ESRS, IFC further notes that the client employed dedicated EHS officers who prepare local language environmental management and occupational health and safety (OHS) operational procedures and plans.⁶³ The ESRS states that the client's E&S Management Systems were functioning well and had been validated during pre-investment due

⁵⁶ IFC ESRS, February 2013, <https://officecao.org/4gVilc7>

⁵⁷ Ibid.

⁵⁸ Ibid.

⁵⁹ IFC considered options that would obligate Axzon to invest all IFC funds in the Ukraine expansion and the Polish biogas plants. Ultimately, IFC agreed to a general-purpose loan which did not require the client only to invest in these projects.

⁶⁰ The Integrated Pollution Prevention and Control (IPPC) Directive, codified in 2008 and repealed in 2014, aimed to minimize pollution from various industrial sources throughout the EU. Operators of industrial installation operating activities were required to obtain an environmental permit from authorities in EU countries. For more, see <https://officecao.org/4jHF3Xr>

⁶¹ IFC, ESRS, Axzon Environmental and Social Action Plan, <https://officecao.org/4gVilc7>

⁶² Nor is there any evidence that IFC conducted a gap analysis comparing the EU IPPC and other EU standards with IFC's Performance Standards.

⁶³ IFC, ESRS, February 2013, <https://officecao.org/4gVilc7>

diligence. However, CAO was unable to confirm from project documentation that IFC conducted an adequate validation process. The ESRS concludes that the project was expected to raise site-specific, limited, and readily mitigated E&S issues related to PS1, 2, 3 and 4 and that these issues were addressed in the ESAP. However, CAO found no evidence indicating that IFC conducted an assessment as to whether the PS gaps could be closed by the client within a reasonable period of time, as required by the Sustainability Policy.⁶⁴

The ESRS also notes that IFC visited selected (unnamed) pig farms and slaughtering and meat processing plants in both Poland and Ukraine as well as potential new acquisitions in Ukraine. CAO understands that these pre-investment visits involved two of the farms/locations included in the CAO complaint.

ESAP action items. IFC also prepared and disclosed an ESAP in February 2013 to address gaps in the client's ESMS, which covered Axzon's operations overall.⁶⁵ The ESAP actions confirmed with the client as part of the investment agreement covered a wide array of issues, many related to the scope of this investigation. Most of the actions were due for completion in either September or December 2013. The topics covered by the 11 approved action items included:

- Preparation of corporate policies and procedures (EMS/OHS/HR), based on the current country-specific documents and consistent with the Performance Standards
- Strengthening of Axzon's ESMS through preparation and delivery of ToR for environmental officers and performance management person(s) reporting directly to the client's management and Board, specifying duties and reporting lines
- Formalization of OHS management systems with specific terms of reference
- Introduction of Human Resources policy ensuring adherence to local regulations and ILO standards
- Development of accessible grievance mechanism for community and affected stakeholders
- Ensuring that pesticides and fertilizers were used in accordance with EU principles and local regulations, including enforcement of non-application zones around drainage and water channels
- Actions related to medicine usage and disposal of unused medicine
- Inclusion of liquid effluent control in case of manure spills in all future design specifications, including equipping all farms with modern sealed manure lagoons or storage tanks, designed to prevent spillage into watercourses
- Manure application and fertilizer balancing through: no application of manure during periods of frost to avoid runoffs; no application within 10-50 meters of water courses; limiting of manure application to the actual needs of crops; and calculating fertilizer deficit after manure application to determine the need for commercial fertilizer add up
- Emergency preparedness and response in case of accidents

⁶⁴ IFC 2012 Sustainability Policy, para. 22.

⁶⁵ IFC, ESRS, February 2013, section Environmental and Social Action Plan, <https://officecao.org/4gVilc7>

- Sorting and disposing of waste according to safe principles, including an animal destruction system in-house (for example an incinerator) for new facilities, and air emissions from incinerators to comply with WBG guidelines

The following sections discuss CAO's analysis of IFC's actions prior to investment and its findings regarding shortcomings in IFC's due diligence.

4.3 CAO Analysis of IFC's Pre-investment E&S Due Diligence

4.3.1 Limited E&S due diligence focused on Ukrainian operations

Despite IFC's stated objective that its investments would principally support the expansion of Axzon's operations in Ukraine, there is no evidence that E&S risks specific to the facilities in Ukraine were discussed by IFC as part of its E&S due diligence.⁶⁶ At the time of investment, the Ukraine operations included around 10 farms comprising a mix of brownfield and greenfield developments and one biogas plant.⁶⁷ Among these facilities were the three pig production farms subject to this complaint, of which Luka and Delievo were still under construction when the project was approved. Both Lany and Luka were brownfield developments, while Delievo was a greenfield site.

IFC informed CAO that the client had obtained relevant permits to operate its Ukrainian farms, and that it had internal records to confirm this.⁶⁸ However, CAO found no documented evidence from IFC's pre-investment review to support the ESRS conclusion that the client's business activities, and specifically the Ukrainian operations, were being developed in accordance with national E&S requirements and the IFC PS. In internal documentation, IFC noted some E&S areas where improvements could be made, including prevention of accidents (referring to facilities in Poland) and the need for additional land for manure disposal. However, CAO found no evidence of IFC analysis to support the conclusion that Axzon's operations in Ukraine would meet the requirements of the relevant Performance Standards within a reasonable period of time, as the Sustainability Policy requires.⁶⁹ Further, IFC documentation makes no mention of potential E&S

⁶⁶ CAO notes that, differently from Poland's operations which were already established (30 built farms and eight biogas plants), the Ukraine operations were newer and under expansion. Farms that are under construction or recently opened require closer IFC supervision to check they are built and operating in compliance with the PSs (for example, review of ESIs is required). The Sustainability Policy, para 27, states: "IFC's engagement often occurs well after the business activity is conceived, with the site selected and development started. In such cases, IFC will review the ESMS and risk management practices already in place, as well as the environmental and social assessment and community engagement undertaken by the client and/or any third party before IFC's consideration of the investment. When IFC's involvement occurs in the early stages of investment design, IFC is able to support the client more effectively in anticipating and addressing specific risks and impacts; in identifying opportunities; and in managing these throughout the life of the investment."

⁶⁷ There is some inconsistency in IFC information in relation to the client's total number of farms in Ukraine: While the ESRS notes there were "around ten farms" at the time of investment, earlier IFC documentation in March 2013 refers to "five farms". In 2017, IFC told CAO there were "seven farms" in Ukraine. In any event, this represents a not insignificant number of farms, while also being a manageable number for conducting a comprehensive site-level appraisal. See, IFC, SII, February 2013, <https://officecao.org/41kh2xs>

⁶⁸ Companies operating in Ukraine are required to obtain and maintain permits for air emissions and special water use; to declare waste generation; and to have valid land titles and/or lease agreements. Permits specify limits for air emissions and for water intake, and set wastewater quality parameters as well as air and water monitoring requirements.

⁶⁹ IFC's Sustainability Policy, para. 22 states that, "IFC will only finance investment activities that are expected to meet the requirements of the Performance Standards within a reasonable period of time."

risks associated specifically with the Ukraine operations that were the main focus of the investment.

In addition, the regulatory contexts of the countries where Axzon operated required a differentiated approach toward applicable E&S standards and risks of non-compliance. Poland and Denmark are EU members, where EU environmental regulations applied, and EU oversight was expected. Because Ukraine is not an EU member, it could not be reasonably assumed that Axzon's Ukrainian operations would operate according to EU environmental standards, nor were these enforceable by EU regulatory oversight mechanisms.⁷⁰ These differences in regulatory context should have prompted IFC to assess Axzon's Ukraine operations with a higher level of scrutiny than the operations in Poland or Denmark. However, CAO found no evidence of a differentiated approach in IFC's due diligence.

Moreover, the ESAP's action items all apply to the client's overall operations, and do not take into account the specific E&S impacts and risks associated with Axzon operations in Ukraine. IFC and the client included no E&S conditions in the project ESAP that addressed specific environmental gaps for facilities at each site of operation.

4.3.2 Lack of review of Environmental Impact Assessments for client farms

IFC's project ESRS of February 2013 notes that Axzon's new greenfield farms are developed only after the preparation of local ESIA studies and that older farms went through approval procedures which involved either environmental audits or EIAs that then provided the basis for issuing new permits. The ESRP also states that for operations that are complex or have dispersed assets, IFC may support the client in conducting additional studies or environmental audits in order to complete the appraisal.⁷¹ CAO notes that Axzon operations were generally complex and therefore such additional studies or audits could have enabled more effective E&S risk management.

CAO found no evidence that IFC assured itself that the client undertook the required ESIAs for new developments, as stated in the ESRS. Such impact assessments were particularly relevant for Axzon's Ukraine operations, considering the emerging state of the non-EU country's environmental regulatory context as well as the scale of the operations and potential impacts.⁷² Nor is there evidence that IFC reviewed or requested environmental audits for any of the existing sites/farms in Ukraine to assess E&S risks and impacts. In particular, there is no evidence that IFC reviewed the EIAs for Delievo and Luka farms, which were under construction at the time, as required by the Sustainability Policy.^{73,74} Nor is there evidence that IFC reviewed the anticipated emissions and discharges of these farms to determine whether and how they would meet the WBG EHS guidelines. Given that the Sustainability Policy requires a differentiated level of scrutiny

⁷⁰ The EU-Ukraine Association Agreement was only signed in 2014. In June 2022, Ukraine was granted EU candidate status. See, <https://officecao.org/3DakoLo>

⁷¹ IFC, ESRP (2013), section 3, 2.2.2.

⁷² IFC 2012 Sustainability Policy, para. 26.

⁷³ IFC 2012 Sustainability Policy, para. 27.

⁷⁴ When IFC conducted its ESDD, the sites for development of these two farms were already selected and construction was underway.

for operations depending on development stage, IFC should have reviewed the EIAs for these two farms.⁷⁵

Given the challenges of Ukraine's E&S regulatory environment as well as the nature and scale of the operations the project would support, CAO concludes that IFC did not support the client effectively in anticipating and addressing specific risks and impacts through the review of relevant ESIA's.⁷⁶

4.3.3 Limitations in IFC disclosure and stakeholder engagement processes

The complainants also raised concerns about Axzon's lack of consultation and information disclosure in relation to the EIAs conducted for the three farms. Local communities were particularly concerned about the adequacy of the second Delievo EIA in 2013, given that the number of pigs to be housed had more than doubled (to 4,000 sows and 23,700 weaners).⁷⁷ Their concerns centred on associated E&S impacts related to manure production and management, water use, and air pollution.

IFC's pre-investment documentation does not address the client's consultation with affected communities on E&S impacts in relation to specific client facilities. Available records of consultations about the Ukraine operations are limited and insufficiently detailed to demonstrate that IFC engaged with the client about its compliance with national and IFC requirements regarding ESIA consultation and disclosures.

In the case of the Delievo Farm EIA dated 2009 and the Luka Farm EIA dated 2008, both of which were under construction at the time of IFC's due diligence, a review of the client's consultations with communities would have been required. In discussions with CAO, IFC acknowledged that consultations during the EIA processes were limited, but stated they were conducted as required by Ukrainian law at the time. However, CAO found no evidence to support this conclusion.

Regarding disclosure of project E&S information, IFC maintains that its client fulfilled the requirements of existing Ukrainian law that owners of farms with capacity over 5,000 pigs prepare a full-scale EIA for approval and ensure its disclosure, including through public hearings.⁷⁸ However, CAO found no available documentation demonstrating that IFC sought to verify local disclosure of the client's EIA as required by PS1 and Ukrainian law.⁷⁹

4.3.4 Limitations in IFC assessment of risks to community health, resource efficiency, and pollution prevention

CAO's review of IFC investment appraisal documentation indicates that IFC did not evaluate or consider all relevant key risks to community health or public health risks associated with the nature

⁷⁵ The Sustainability Policy (para. 27) states: "IFC's engagement often occurs well after the business activity is conceived, with the site selected and development started. In such cases, IFC will review the ESMS and risk management practices already in place, as well as the environmental and social assessment and community engagement undertaken by the client and/or any third party before IFC's consideration of the investment."

⁷⁶ IFC 2012 Sustainability Policy, paras. 26 and 27. Para 26 specifies that: "IFC's environmental and social due diligence is commensurate with the nature, scale, and stage of the business activity, and with the level of environmental and social risks and impacts."

⁷⁷ The original capacity of the Delievo farm was 11,900 finishers (2009).

⁷⁸ Law N46/95-VR of February 9, 1995, Ecological Expertise; Resolution of the Cabinet of Ministers of Ukraine #808 of August 28, 2013. The Law was replaced in 2017 with the Law "On Environmental Impact Assessment" which entered into force on December 18, 2017.

⁷⁹ IFC 2012 PS1, para. 29.

of Axzon's operations in Ukraine. This apparent omission occurred despite the fact that IFC learned in 2012 that in 2011 the client had been the subject of E&S complaints regarding its Ukraine operations. CAO observes that the issues raised in these earlier complaints are similar to those in the complaint to CAO and were not addressed in IFC's E&S due diligence.

The concerns raised by villagers living 1-3km from three Axzon farms in their complaint to CAO correspond to five community health, resource efficiency, and pollution prevention issues in the context of E&S management of pig farms. Below is a description of how each of these key issues was addressed in IFC's pre-investment E&S due diligence (ESDD):

- **Manure management:** IFC took steps to identify and prevent risks arising from manure management at Axzon operations. IFC reviewed its client's operations-wide manure management plan and included an ESAP action on liquid effluent control if manure spills occurred.⁸⁰ In addition, IFC reports conducting site visits to a sample of farms, including operated by Danosha, to ensure these conditions were met. However, CAO found no evidence in due diligence documentation that IFC reviewed manure management plans for individual farms under construction, including two that are subject to this complaint.
- **Management of carcasses:** While there is evidence that residents complained about odor associated with carcass transport through their villages, IFC did not verify during ESDD whether the client's ESMS implementation on the farms in Ukraine met PS3 requirements. IFC also did not confirm that ESMS implementation applied principles and techniques consistent with the WBG EHS Guidelines and GIIP related to the storage, transport, and disposal of carcasses.

Furthermore, CAO was informed that residents of Sivka Voynylivska and Vodnyky were not included in the public consultations regarding the original EIAs for the Luka and Lany farms, despite the fact that transportation routes for pigs and carcasses passed through their villages. There is no evidence that IFC reviewed the EIAs at the due diligence stage, to check whether stakeholder engagement was correctly conducted.

- **Wastewater management:** There is no detailed description of the potential use of wastewater management systems by Axzon/Danosha in IFC's due diligence documentation.⁸¹ Nor is there any information confirming that IFC verified during ESDD the E&S risks and impacts of the client farms' future wastewater plants in Ukraine.
- **Water extraction and use:** Residents of all villages located near the client's farms in Ukraine relied on well water for domestic purposes. There is no evidence that IFC assured itself during E&S due diligence that the client would consider impacts of the farms' water extraction on the aquifer supplying the wells. In addition, CAO found no evidence that an adequate cumulative

⁸⁰ The ESRS states that pig manure is pumped from stables to biogas production facilities and then on to sealed lagoons, where it is stored until field application in the spring and autumn. It describes the lagoons as designed to prevent raw manure from spilling into water courses. However, there is no mention of water quality monitoring of rivers or groundwater nor of any other measures to monitor accidental spills and water pollution. Nor does the ESRS address the risk of receiving waters becoming polluted after heavy rains from runoff manure applied in fields.

⁸¹ CAO's review of the Luka EIA indicates that the construction of a wastewater treatment plant and the discharge of wastewater into rivers was considered as a potential action by the company to implement in the future. See, Luka Farm EIA (2008) for further details. Many of the Ukrainian farms in fact built wastewater plants to process domestic wastewater, and in some cases released effluents into water streams or sewage, as discussed below in this CAO report.

impact assessment was conducted for Delievo Farm to assess the client's incremental impacts on local water use, taking into account water consumption by nearby limestone quarries.

- **Road-related impacts:** There is no evidence that IFC assessed the client's potential impacts on road wear and the generation of dust during ESDD as required by PS1, PS4, and EHS guidelines.

4.3.5 IFC disclosure requirements

The Access to Information Policy (AIP) requires IFC to make publicly available electronic copies or weblinks "to any relevant ESIA documents prepared by or on behalf of the client."⁸² CAO has been unable to verify whether IFC disclosed any of the EIAs related to Axzon's operations, including the three farms subject to this complaint, in accordance with the AIP. IFC maintains that EIAs were posted on its project disclosure page for 30 days at the time the investment was approved but has also expressed the view that there was no AIP requirement to disclose ESIs for Category B projects. If the EIAs were disclosed in 2013, any links were subsequently removed from the project disclosure page.⁸³

4.4 CAO Findings

During its pre-investment due diligence IFC did not review the project's E&S risks and impacts in relation to each country of operations and relevant facilities. As a result, CAO finds shortcomings in IFC's ESDD as follows:

- **Lack of sufficient assessment at the operational level:** Because IFC's ESDD focused on Axzon at the corporate level, IFC did not adequately assess E&S risks in each country of operations and for each subsidiary. IFC did not account for differences between countries, and whether each country's operations had adequate capacity to prevent and manage E&S risks. There is no evidence of ex-ante review of ESIs in any country operation. Specific to Ukraine, there is no indication in due diligence documentation that IFC assessed the risks of Danosha farm operations against the existing regulatory framework, contextual risks, and state of the business operations, including community E&S concerns dating back to 2011. IFC's ESDD also lacked an analysis of whether the Ukraine operations required a higher level of due diligence review than operations in Poland or at the corporate level.
- Similarly, actions agreed by IFC in the ESAP, which focused on the client's corporate systems, did not provide adequate assurance that E&S issues specific to Ukraine would be effectively addressed.
- **Deficiencies in identifying risks to community health and pollution prevention:** IFC's ESDD did not provide assurance that the client's implementation of its ESMS for the Ukraine pig farms would comply with PS requirements. While steps taken to address risks from manure management systems were mostly adequate, CAO finds that IFC's review of other areas of farm operation such as management of carcasses, wastewater

⁸² IFC, 2012 Access to Information Policy, Environmental and Social Information (a) Direct investments (vi) (para. 31), <https://officecao.org/4gW0mQX>

⁸³ IFC, ESRS, February 2013, <https://officecao.org/4gVilc7>. Page verified on May 05, 2025.

management, water extraction and use, and road-related impacts, were deficient. CAO could not confirm that IFC took adequate measures to ensure the client could be expected to meet the requirements of the following Performance Standards within a reasonable period of time: PS1 on risk management and consultations with affected communities during the development of EIAs; PS3 requirements to apply principles and techniques consistent with GIIP to client operations; PS4 requirements to evaluate risks and impacts to the health and safety of communities; and the general PS requirement to respect national law (para. 5, overview).⁸⁴

These shortcomings during ESDD did not provide a strong foundation for IFC's eight-year supervision of its investments in Axzon.

CAO notes that while IFC's equity investment was directed to Axzon Group, the loan was used by Axzon subsidiaries to reconstruct existing facilities and construct new ones. The loan features required IFC to assess the level of E&S risks for each country with relevant operations, including by reviewing EIAs for farms under construction that the loan would support as well as reviewing audits for existing facilities. Despite known E&S risks and impacts in the livestock sector—including pollution, odor, and related community health concerns—IFC did not analyze the specific risks and impacts posed by Axzon's Ukraine facilities nor work with the client to identify measures to mitigate them. IFC did not consider the complexity and scale of the client's operations, which had assets and facilities in four countries with different levels of national E&S requirements, risks, and stages of operation development. Instead, IFC limited its ESDD to a review of its client's corporate systems.

Based on the above, CAO finds that:

- **Contrary to the requirements of the Sustainability Policy para. 26, IFC's pre-investment review was not commensurate with the nature and scale of the business activity, and with the level of E&S risks.**
- **Contrary to the Sustainability Policy para. 22, IFC did not assure itself during due diligence that the client could be expected to meet the requirements of the Performance Standards within a reasonable period of time.**
- **Contrary to the Sustainability Policy paras. 27 and 28, IFC did not verify that the E&S risks and impacts of operations in Ukraine were adequately identified through the review of EIAs and addressed in the client's ESMS.** In particular, contrary to the 2013 ESRP (Section 3 (2.1.)), IFC's limited review of the client's ESMS and overall E&S risks from relevant operations did not allow IFC to verify the client's capacity to effectively manage E&S performance, including its ability to enable current and future project compliance with the Performance Standards, considering the E&S performance of representative past and prospective identified projects.

Finally, **CAO finds IFC non-compliant with the requirement in the Access to Information Policy (para. 31(a)vi) for the ESRs to include electronic copies or web links to "any relevant" ESIA prepared by or on behalf of the client.** There is no evidence that any relevant

⁸⁴ IFC 2012 Sustainability Policy, para. 22.

EIA in relation to Axzon's new farms or assets, whether in Ukraine or elsewhere, was referenced in the ESRS or disclosed on, or via a link from, IFC's public web pages.

The Sustainability Policy (para. 40) clarifies that the category of the project specifies IFC's institutional requirements for disclosure in accordance with the AIP. In turn, the AIP requires that for Category B projects, such as this one, IFC disclose electronic copies or web links, where available, to any relevant ESIA documents prepared by or on behalf of the client. Considering the challenges of Ukraine's E&S regulatory environment as well as the nature and scale of the client operations, IFC should have included links to all EIAs of the farms under construction in Ukraine, as these were relevant for the project ESDD.⁸⁵

5. Project Supervision

This section evaluates IFC's environmental and social performance during its supervision of the project, in relation to the complaint issues raised by local communities. It lays out IFC's supervision requirements, summarizes IFC's actions during eight years of supervision from 2013 through 2021, and presents CAO's analysis. Based on the evidence below, and while acknowledging that IFC's supervision improved after 2018, **CAO finds that IFC was non-compliant with Sustainability Policy requirements that client business activity meet the Performance Standards, and that IFC provide regular, adequate, and effective supervision. In addition, CAO finds that IFC did not assure that the client's management of manure, wastewater, and potential farm-related impacts on air, water, and soil pollution were implemented in accordance with PS3, PS4, and good international industry practice.**

5.1 IFC E&S Supervision Requirements

After an investment is approved, the Sustainability Policy requires IFC to monitor the investment to ensure compliance with IFC's legal agreements and applicable policies and standards during project execution.⁸⁶ IFC implements a regular program of supervision, throughout the project's lifetime, in order to obtain information to assess the project's compliance with applicable Performance Standards, general and sector-specific Environmental, Health and Safety (EHS) Guidelines, and any project ESAP. This supervisory activity seeks to assess the current level of E&S risk, provide advice to clients on how to address critical E&S issues, and identify opportunities for improvement and good practices that could be applied to similar projects.⁸⁷ IFC supervisory activities include review of an annual E&S monitoring report (AMR) prepared by the client and of other available project-related information, site visits, and commissioning third party reviews of client performance.⁸⁸ IFC's E&S supervision procedures also require staff to carefully consider the effectiveness of the client's grievance mechanisms for project-affected people.⁸⁹

⁸⁵ IFC, Access to Information Policy, para. 31 (a) (vi), <https://officecao.org/4gW0mQX>

⁸⁶ IFC, 2012 Sustainability Policy, para. 7.

⁸⁷ IFC, 2012 Sustainability Policy, para. 45; IFC, ESRP 6, para. 1 (version 2013).

⁸⁸ IFC, ESRP 6 (version 2013), para. 2.1.

⁸⁹ IFC ESRP 6 (version 2013), para. 2.3.

When IFC completes a supervision activity (such as review of a client's AMR or a site visit), it rates the client's performance⁹⁰ and whether or not it meets IFC E&S requirements.⁹¹ An assessment of client E&S performance as Excellent or Satisfactory indicates that the client is in material compliance with IFC's E&S requirements, including that project ESAP implementation is on schedule. An IFC assessment of Partially Unsatisfactory or Unsatisfactory indicates that the client is not in compliance with IFC's E&S requirements. In the event of such non-compliance, IFC is required to "work with the client to bring it back into compliance, and if the client fails to reestablish compliance, IFC will exercise its rights and remedies, as appropriate."⁹²

When a complaint is submitted to CAO, IFC's procedures require its staff to add the investment to the IFC E&S High-Risk List.⁹³ Investments on this list require closer supervision.⁹⁴

5.2 Overview of IFC Supervision Activity

IFC supervision for the Axzon project can be divided into two phases. Between 2013 and 2018, IFC's supervision failed to regularly monitor and substantially address project-related E&S risks and impacts related to the client's Ukrainian operations. From 2019-2021, IFC's supervision improved, with efforts made to address some of the deficiencies in the client's operations management and reporting practices. Figure 2 presents an overview of IFC's supervision and related client actions from 2013 until investment exit in 2021.

Given the intensive and large-scale nature of the pig farming operations and related water and air pollution concerns, monitoring of air emissions, water discharges, and non-point sources of pollution were essential to managing environmental and health risks posed by this project.

As previously noted, large-scale pig farms can be sources of pollution to water bodies, particularly through manure storage systems, wastewater discharge, runoff from manure application, and stormwater runoff from animal housing areas. Proper waste management, containment systems and treatment technologies are essential to minimize the risk of point- and non-point source pollution. To meet effluent standards, wastewater generally must undergo a treatment process to reduce its BOD to acceptable levels before discharge.⁹⁵ Client monitoring of effluents, the bodies of water that receive them, and farm runoff is important to ensure that levels of these pollutants are maintained within the range established under PS3 and EHS Guidelines.

Large-scale pig farms can also be sources of air pollution, through emissions from manure storage systems—particularly open lagoons and pits that store the slurry ventilation from barns, and dead animal disposal systems such as rendering and incineration facilities. Air emissions typically contain pollutants, such as ammonia, hydrogen sulfide, nitrogen dioxide, and particulate matter (PM10 and PM2.5), which can have environmental, health, and nuisance impacts on local

⁹⁰ In conducting its review, IFC rates the client's E&S performance as Excellent, Satisfactory, Partially Unsatisfactory, or Unsatisfactory (IFC ESRP 6 (version 2013)).

⁹¹ IFC ESRP 6 (version 2013).

⁹² IFC, 2012 Sustainability Policy, para. 24.

⁹³ IFC ESRP 6 (version 2013), para 5.2.1, ESRP (versión 2016), paras. 10.2.1 and 2.2.

⁹⁴ IFC ESRP (version 2013), para. 10.2.2-3 and ESRP (2016), para. 10.1.1.

⁹⁵ See, for example: Kornboonraksa, Thipsuree, et al, "Application of chemical precipitation and membrane bioreactor hybrid process for piggery wastewater treatment," *Bioresource Technology*. Vol 100, Issue 6, March 2009, 1963-1968, <https://officecao.org/3FPemkl>; Lee, Sang-Ah, et. al., "Stepwise treatment of undiluted raw piggery wastewater, using three microalgal species adapted to high ammonia," *Chemosphere*, Vol. 263, January 2021, <https://officecao.org/4jcbL2o>.

communities. Proper management and mitigation technologies such as covered manure storage, ventilation control, odor treatment systems, dust suppression techniques, and waste-to-energy systems can help reduce these emissions and limit their environmental and health impacts. Air monitoring can help ensure that the necessary management and mitigation methods are in place and functioning properly.

In line with the above, WBG's general EHS Guidelines and EHS Guidelines for Mammalian Livestock Production both provide specific guidance for managing air emissions and air quality, water quality, manure management, animal health and welfare, soil quality, energy consumption, waste management including animal waste, noise levels, use of pesticides, land use and habitat impact, and traffic safety. They also provide parameters for IFC to assess client performance in most of these areas.^{96,97}

Figure 2. Overview of IFC and Client Supervision Activities

2013-2014	Supervision of achievement of ESAP items associated with target dates
June 2014	IFC conducts E&S Management System training for Ukrainian agribusiness companies, including Axzon
Oct-Nov 2014	First IFC site supervision visit, focused on client operations in Russia only
March 2015	Client's first Annual Monitoring Report (AMR), for 2014, submitted to IFC
October 2015	IFC completes review of the 2014 AMR (contains information on Ukraine operations)
December 2015	Second IFC supervision visit, to client operations in Russia and Ukraine
March 2016	Client's 2015 AMR submitted to IFC
Jan 2017	Client's 2016 AMR submitted to IFC
Jul 2017	IFC completes combined review of the 2015 and 2016 AMRs (does not analyze information on Ukraine operations)
Jan 2018	Third IFC site supervision visit, to client operations in Ukraine
Feb 2018	Client's 2017 AMR submitted to IFC; no review of the AMR in IFC documentation
May 2018	IFC report on January 2018 supervisory visit

⁹⁶ IFC Environmental, Health, and Safety Guidelines, 2012, <https://officecao.org/3FI12jc>, and IFC, Environmental, Health, and Safety guidelines for Mammalian Livestock Production, 2007, <https://officecao.org/3FFs21d>. For air quality, parameters that require monitoring are ammonia (NH₃), hydrogen sulfide (H₂S), nitrogen dioxide (NO₂), and particulate matter (PM₁₀ and PM_{2.5}). For gas emissions, methane parameters (CH₄) and CO₂ are important. For water quality, relevant parameters are nutrients such as nitrogen and phosphorus, Biological Oxygen Demand (BOD), Chemical Oxygen Demand (COD), and coliform bacteria. To assess soil contamination, the client should check for excessive nutrients or heavy accumulation, and pH levels of soil. Finally, odor and noise levels should also be monitored in nearby residential areas. The EHS guidelines include specific indicative values or thresholds for most of these pollutants.

⁹⁷ The EHS for Mammalian Livestock Production states that "monitoring activities should be based on direct or indirect indicators of emissions, effluents, and resource use applicable to the particular project. Monitoring frequency should be sufficient to provide representative data for the parameter being monitored...Monitoring data should be analyzed and reviewed at regular intervals and compared with the operating standards so that any necessary corrective actions can be taken." (p.15), <https://officecao.org/3FFs21d>

Jan 2019	Client's 2018 AMR submitted to IFC
Feb 2019	IFC conducts E&S Roundtable for Ukrainian agribusiness companies, including Axzon
Apr 2019	IFC completes review of the 2018 AMR (with information on Ukraine operations)
Nov 2019	IFC conducts Stakeholder Engagement workshop for Ukrainian agribusiness companies, including Axzon
Nov 2019	Fourth IFC site supervision visit, including to Ukraine but not the farms subject to the CAO complaint
Jan 2020	Client's 2019 AMR submitted to IFC
Apr 2020	IFC completes review of the 2019 AMR (contains information on Ukraine operations)
Jan 2021	Client's 2020 AMR submitted to IFC
May 2021	IFC completes review of the 2020 AMR (contains information on Ukraine operations)

5.2.1 Supervision from 2013 to 2018

From mid-2013 until the end of 2014, IFC's supervision focused on the client's implementation of the project E&S Action Plan. Axzon was due to implement most ESAP actions between September and November 2013, with a few actions subject to ongoing annual reporting.

In January 2014, IFC cleared one of six ESAP items as completed, requested Axzon to comply with the remaining overdue ESAP items, and made the achievement of two such items a condition for further disbursement. Axzon then requested a longer timeframe to implement these ESAP action items and IFC agreed to revised timelines from February to May 2014.

IFC's subsequent supervision of ESAP actions throughout 2014 included: (i) a request for the client to make more effort to reflect PS requirements in its internal policies, procedures, and instructions covering EMS, OHS, and HR standards before IFC clearance for the next disbursement; (ii) timely follow-up on each action item; and (iii) regular communication with Axzon, detailing IFC's expectations on ESAP implementation and E&S conditions to meet prior to the first disbursement (completed in June 2014) and the second disbursement (completed in December 2014). However, this active supervision focused mostly on Axzon's corporate-level actions, with IFC's focus on ESAP implementation in the Ukraine operations limited to stakeholder access to the grievance mechanism and the client's use of pesticides.

During 2014, IFC did not receive a client AMR covering the 2013 early period of the investment and CAO did not find records showing that IFC requested the report. This period included the implementation of ESAP actions and the update of the Delievo EIA (dated November 2013) which should have been reported in detail to IFC by the client. However, in addition to IFC's supervision of ESAP actions detailed above, CAO found evidence that IFC inquired about some of the

community grievances against Danosha, for example requesting data from Axzon on water quality to better understand community concerns related to groundwater contamination.⁹⁸

In November 2014, IFC visited Axzon sites in Russia but none of the client's operations in Ukraine. IFC supervision documentation mentions the updated sow capacity numbers for Ukraine, Poland, and Russia, but there is no clarification as to whether IFC received specific information from the client on the farms' expanded capacity and its implications. IFC did not discuss the client's E&S performance in relation to its operations in Ukraine and rated the client's E&S performance as Satisfactory.

In March 2015, IFC received the client's first AMR, which covered calendar year 2014. The client informed IFC that it was operating in accordance with the environmental requirements of national legislation and WBG EHS standards, including for manure management and air emissions. Axzon provided monitoring data on air emissions for the Ukrainian farms, including Luka, Lany, and Delievo, which were within the EHS thresholds. The client also informed IFC that it regularly monitors local rivers and performs lab analysis of the groundwater from the monitoring wells in Ukraine, but did not provide data on water samples. The AMR also stated that a grievance mechanism had been established by Danosha and that no E&S concerns had been identified by local inspection authorities during the reporting period. The client referred to Delievo as a sow farm, which points to the change in purpose, but the AMR did not reference the change in capacity noted in the updated 2013 Delievo Farm EIA. Finally, the AMR briefly refers to the CAO complaint and related dispute resolution process.

In October 2015, IFC noted the CAO complaint and the status of dispute resolution efforts in its review of the 2014 AMR, but did not address in detail the client information related to the complaint issues.⁹⁹ For example, IFC did not analyze the data provided by the client on air emissions. Additionally, there is no record that IFC requested river water quality data or lab analysis of groundwater from the monitoring wells referenced by the client. IFC noted that the 43 community grievances against Danosha related to road conditions, land use, and compensation for damages were all addressed by the client.¹⁰⁰ Finally, IFC noted that Axzon was on the High-Risk List for projects requiring closer supervision due to the active CAO case. The environmental and social performance of the project was rated as Satisfactory.

IFC conducted a second site visit in December 2015, this time to client farms located in Western Ukraine.¹⁰¹ IFC noted in its subsequent report that the client was operating the farms IFC visited

⁹⁸ IFC received information from the client on how well monitoring samples were conducted in Ukraine, as well as related data for two months in 2014. Figures were only provided for five monitoring points and it is unclear whether any of them are close to the farms subject of this complaint.

⁹⁹ IFC's review of the 2014 AMR stated that Danosha had developed a plan to address the complaint without providing further details. As outlined below, CAO's investigation confirmed that IFC did follow up with the client in 2014-2015 on specific issues raised in the CAO complaint related to access to information, communication with communities, compensation for land use, and odor impacts related to manure management.

¹⁰⁰ The log includes four complaints related to road conditions, 27 to land acquisition disputes or compensation for the use of land, and 12 related to damage to property (e.g. crops). The log provides a short explanation of the measures adopted by the company for each of the cases. IFC considered all grievances to be addressed in its review, without providing details on which information was taken into consideration.

¹⁰¹ The information reviewed by CAO does not specify how many farms in the Danosha region IFC visited.

as anticipated and according to agreed standards.¹⁰² IFC's report provided no analysis to support this conclusion and no indication that during the site visit IFC followed up with its client on issues related to community health, pollution prevention, or resource efficiency. The project's overall performance was again assessed as Satisfactory.

IFC reviewed the client's 2015 and 2016 AMRs jointly in July 2017, concluding that the two AMRs were comprehensive, the client's E&S management systems and implementation strong, and the client's overall performance Excellent. IFC stated that in all E&S issues (except labor accidents) Axzon's performance was above expectations but provided no analysis to sustain this conclusion. The two client reports include environmental monitoring data on air emissions, but no monitoring data on the quality of groundwater and local rivers, and there is no record that IFC requested this information. CAO notes that the data on air emissions for the three complaint-related farms (Luka, Lany, and Delievo) included in the 2015 and 2016 AMRs is identical across both years for all monitoring points.¹⁰³ IFC's review report gives no indication that IFC assessed this data or raised this potential issue with the client. The 2015 client report also implied that Delievo Farm was operating under a revised pig capacity, but again IFC did not pursue this issue with the client or request further information.¹⁰⁴ Finally, in 2015, the client started to report on the use a social fund to address some of the community needs, such as road and infrastructure repairs.

In 2016, the client AMRs included an activities calendar annex with a backward-looking spraying schedule for Ukraine Axzon operated farms. This included days when the client did not conduct spraying operations on its pig farms (i.e., religious days) but did not specify hours and days when spraying occurred. IFC did not note or inquire further about this lack of specificity, nor asked the client to share a detailed calendar plan for fertilizer application.¹⁰⁵ The 2016 AMR also included an annex listing 54 complaints against Danosha for that calendar year focused on bad odors, land issues, road disruptions, and fugitive dust, which again was not analyzed by IFC.¹⁰⁶ CAO could not confirm whether IFC received a similar grievances annex for the 2015 AMR. IFC's 2017 review report covering both the 2015 and 2016 AMRs noted that no issues had been identified by Ukrainian environmental inspection authorities, without acknowledging that the client had reported a temporary ban on Environmental Inspections (EI) in the country during 2015.¹⁰⁷ IFC also noted its ongoing communication with the company with respect to the CAO complaint.

¹⁰² Agreed standards vary by ESAP action, as agreed by IFC and Axzon. At a minimum, ESAP actions reference the Performance Standards but some also reference other standards including local regulations, WBG guidelines, ILO core labor standards, and EU principles and regulations such as the IPPC standards for pig production. See IFC, ESRS, February 2013, Section E&S Mitigation Measures and ESAP, <https://officecao.org/4gVilc7>

¹⁰³ The reporting includes 10 monitoring points, four of which relate to the three farms subject to this complaint. The data is identical in 2015 and 2016 for all 10 monitoring points.

¹⁰⁴ Axzon stated in its 2015 AMR report that the farm was operating at the full capacity of 4,000 sows, confirming that an expanded farm capacity had been put into effect. Later in the investment, the client informed IFC that there had been no change in animal capacity and manure generation since the first EIA conducted for this farm in 2009.

¹⁰⁵ Since 2014, the client shared similar calendars with IFC.

¹⁰⁶ Of the 54 complaints for Axzon's Ukraine operations, 23 related to road issues (including dusting), 11 to land, 10 to odor (including one case related to carcass transport), six to spraying, two to manure leakage, and two to damaged property.

¹⁰⁷ EIs are legally required and scheduled annually in Ukraine to verify compliance with permits and other regulatory requirements (such as for water and air quality). Ad hoc EIs may also be conducted in response to complaints from residents. However, temporary regulatory bans on ecological inspection were issued by the Ukrainian government over several periods between 2014 and 2018. At these times, ecological inspectors were unable to carry out scheduled farm

In January 2018, IFC conducted a third supervision visit, this time to Axzon's Ukraine headquarters and selected farms. IFC visited Ukraine facilities to collect physical copies of client information reviewed during IFC's pre-investment due diligence as well as relevant information related to the CAO complaint.¹⁰⁸ In its supervision documentation, IFC described the client's operations in Ukraine as well-staffed and diligent in providing IFC with E&S information. IFC noted, however, that Axzon had found it difficult to find qualified E&S staff willing to resettle to its locations in Ukraine and instead relied on consultants from Kyiv. IFC also noted that the client had a solid grievance mechanism in place for community complaints. While reaching a generally positive assessment of the client's E&S performance, the supervision document did not discuss issues related to pollution or engagement with communities. No follow-up action was required of the client.

IFC received the client's 2017 AMR in September 2018, which reported that all project ESAP actions had been fully implemented. However, CAO found no IFC review of this report in supervision records. As in previous AMRs, Axzon mentioned conducting water quality monitoring at the Ukraine operations but included no data on the stated monthly monitoring of groundwater wells and rivers, nor did IFC request such data. Data on air emissions was updated for the ten monitoring points previously identified in 2015 and 2016, of which four are located on Luka, Lany, and Delievo farms named in the complaint to CAO. The parameters for these three farms were within the limits established in the EHS Guidelines. The 2017 AMR also included 62 community grievances against Danosha, on issues related to manure management, odor, and road conditions, with several complaints not reported as resolved by Axzon.¹⁰⁹ Finally, the AMR summarized the CAO complaint and indicated the company's availability to engage with the community through the CAO-led dispute resolution process, but did not indicate any specific measures undertaken on the issues raised by complainants.

IFC was made aware of two issues relevant to the active CAO case in the 2017 AMR. The first was the construction of a carcass incinerator for Luka Farm¹¹⁰ following approval by State authorities in February 2017. The project ESAP included an action item for the client to meet pollution prevention requirements for new incinerators including compliance with WBG guidelines for air emissions. Yet, there is no supervision record of IFC raising any questions with its client about this ESAP action item after receiving the 2017 AMR, or asking Axzon about a new EIA for the incinerator. Nor is there any evidence that IFC verified whether the client had complied with

inspections, though inspections responding to individual or community complaints were still permitted. Based on client information, no EIs took place in 2015, 2016 and 2017. However, CAO notes that bans on inspections were lifted from July 2015 to December 2016 and then again from February 2018. Under the Decree of the Cabinet of Ministers of Ukraine No. 408, issued on August 13, 2014, and titled "Introduction of Limitations on Implementation of Inspections by State Inspection and Other Supervisory Authorities," inspections during 2015 could only be carried out based on a court decision. See World Bank, "Ukraine: Ukraine Country Environmental Analysis," January 2016, <https://officecao.org/41QYh6n>. Factors behind these moratoriums may have included the government wanting to reduce administrative burdens on businesses, curb corruption, and encourage investments in the country.

¹⁰⁸ As a result, in February 2018 CAO received from IFC copies of soil tests, information about fertilizer application, and slurry analysis for farms in Ukraine, and took this information into account in its April 2018 compliance appraisal report.

¹⁰⁹ Of the 62 grievances reported in 2017, 24 are related to road traffic issues (including dusting), 16 are related to damaged property, nine are related to spraying, six to land disputes, six to odor (including due to carcasses), and one to manure leakage.

¹¹⁰ See Conclusion of State Ecological Expertise (SEE) #7-03/13-3355/10-17, February 28, 2017.

regulatory requirements and the Performance Standards in building the incinerator, including those relating to public disclosure and consultation.

Second, the client reported one E&S incident in Ukraine in the 2017 AMR, namely high levels of ammonia in the water samples taken from observation holes at Luka Farm. Axzon reported that a corrective action plan was completed by August 2017, including an investigation to identify the cause of the release, reconstruction of the farm's manure storage lagoons, and water tests conducted after reconstruction of the lagoons. There is no record that IFC followed up on this E&S incident with Axzon.

5.2.2 Supervision from 2019 to 2021

During the period from 2019 until IFC's exit from the investment in 2021, IFC strengthened its supervision of the client and its pig production facilities. Axzon submitted its AMRs for 2018, 2019, and 2020 in a timely manner and IFC's reviews of each were produced within a few months of receipt. Moreover, IFC started to provide feedback to the client on some of the E&S issues covered in the annual monitoring reports.

In April 2019, IFC reviewed the client's 2018 AMR. As in previous years, IFC did not identify the fact that the client reported identical air emissions data in 2017 and 2018 for each of the three Ukrainian farms covered by the complaint to CAO. IFC did highlight that Danosha received 35 community grievances in 2018 about issues including slurry pollution, damage to roads and houses, damage to crops during spraying, and pollution, noting that some corrective actions were initiated and others were required to avoid recurrence of mistakes.¹¹¹ IFC also asked the client to clarify why there were so many community grievances in Ukraine. In addition, IFC asked to see copies of the EIAs conducted for incineration facilities at Kopanky and Luka farms, and asked the client about the associated consultation and disclosure processes. The AMR, however, did not report on emissions from these incinerators, and CAO found no evidence that IFC sought this data. The client reported that EIs were conducted once for all Ukraine operations (eight facilities) and a second time for Luka Farm, and IFC followed up with the client on EI non-compliance findings raised by the Ukrainian inspectors.¹¹² Despite these issues, IFC's AMR review report rated the client's E&S performance as Satisfactory.

IFC conducted a fourth supervision visit in November 2019. This included visits to several farms in Ukraine, though none of those named in the CAO complaint. IFC noted that the client's stakeholder engagement had improved and Danosha was actively engaging with residents of 75 villages surrounding its farm sites.

IFC's assessment of the community grievance systems was also positive. IFC stated that issues raised by community members were generally related to land acquisition concerns and noted that the number of grievances had decreased in 2019. On pollution prevention, IFC noted that the main community complaints were related to slurry, odor, and potential pollution of waterways. IFC also assessed the slurry management system in place at the farms it visited, and the frequency and methodology Danosha used for testing boreholes and river water, finding the system adequate. IFC also noted that wastewater treatment plants are installed in all the farms visited. During IFC's visit, the client stated that going forward it would submit more information on non-

¹¹¹ Of the 35 grievances reported in 2018, 19 are related to road traffic issues (including dusting), six to damaged property, five to spraying, four to manure leakages, and one to land disputes.

¹¹² The 2019 AMR does not report on EIs and the 2020 AMR notes their suspension due to COVID-19.

compliance issues. IFC followed up with Axzon on stakeholder engagement, acknowledging that despite progress there was room for improvement. In 2019, IFC also conducted a E&S roundtable and a stakeholder engagement workshop for Ukrainian agribusiness companies, including Axzon.

In April 2020, IFC again assessed the client's performance as Satisfactory, based on its review of the 2019 AMR. IFC's review of efficiency and pollution prevention at Axzon facilities was more detailed than in previous years. For example, in the 2019 AMR, Axzon stated that since 2018 it had introduced pretreated wastewater from food processing¹¹³ into the municipality sewage system. IFC noted that the client's wastewater reporting for its Ukraine operations lacked effluent monitoring data on levels of BOD, COD, and nitrogen. IFC asked Axzon to provide these figures in future reporting on Ukraine. As in previous years, data provided on air emissions was identical to that in the 2018 AMR, with the exception of levels for one monitoring point.¹¹⁴ However, IFC's review of client air quality monitoring in Ukraine only noted that parameters were within acceptable limits. IFC did raise other areas for client improvement. These included: providing an explanation of how non-conformities related to manure management and road use had been resolved; making more effort to understand why community members raised similar issues in grievance mechanisms over the years;¹¹⁵ and training employees to improve the company's compliance with E&S standards.

In May 2021, IFC's review of Axzon's 2020 AMR noted the same reporting gaps it had highlighted the previous year, and IFC again asked the client to provide figures and thresholds for effluent monitoring at the farm level in Ukraine. No additional environmental monitoring data was included in this AMR, despite IFC's prior request. As in previous supervision reports, IFC stated its intent to monitor community grievances more closely and recorded a need to assess how the client resolved grievances to avoid further complaints on the same issues, especially manure spreading during the day. This AMR included 60 community grievances, many of which were again related to road traffic issues and odor.¹¹⁶ As in previous AMR reviews, IFC did not ask Axzon clarify air emissions data, although the data recorded was again identical to previous AMRs for the 11 monitoring points reported by the client.¹¹⁷ IFC rated the overall performance of its client as Satisfactory.

5.3 CAO Analysis

As acknowledged above, IFC supervision improved from 2019 onwards. Nevertheless, CAO concludes that IFC's supervision of the project was not regular, adequate, and effective for the first five years of its investment, as required under the Sustainability Framework. This lack of oversight prevented IFC from assessing the extent of the project's compliance with the

¹¹³ Domestic wastewater which is used for watering pigs, cleaning the premises where pigs are kept. See definition in Luka, Delievo and Lany EIAs.

¹¹⁴ In the 2018 AMR, the client reported on 12 monitoring points, including four for the farms subject to this complaint. The 2019 AMR reported on 11 monitoring points, with information for the Lany Farm monitoring point missing. The environmental data reported for 10 of the 11 monitoring points was identical to that recorded in the 2018 AMR.

¹¹⁵ IFC became aware of 20 community grievances related to Axzon operations in Ukraine that year. Of these, eight related to odor and air pollution, six to road traffic, three to compensation for damage to property, two to manure spraying, and one to land usage compensation.

¹¹⁶ Of the 60 grievances reported in 2020, 43 related to smell, 12 to road traffic issues and five to damaged property.

¹¹⁷ In the project's early years, the client reported on 10 monitoring points in Ukraine, which later increased to 11 and 12 monitoring points. Data from 2019 and 2020 is identical and includes 11 monitoring points. This reporting does not include a monitoring point for Lany Farm, which had been included until 2018.

Performance Standards and other E&S requirements, as required by the Sustainability Policy.¹¹⁸ The main shortcomings in supervision identified by CAO are discussed below.

5.3.1 General deficiencies in E&S supervision process

CAO found no indication that IFC asked the client to submit an AMR for 2013. Thereafter, IFC's review of Axzon's 2014 to 2018 Annual Monitoring Reports was inadequate and untimely. Only two of the four AMR reviews conducted by IFC were recorded in internal supervision documentation, and they were not timely enough to supervise the client's activities effectively. CAO also found no indication that IFC provided concrete feedback to the client on the AMRs until 2019, when it started to follow up on community grievances reported by the client and asked Axzon to share additional environmental monitoring data.

This approach was not consistent with IFC's supervision procedures¹¹⁹ and presented a missed opportunity to assess the client's E&S performance and identify potential gaps, since AMRs are the "client's primary communication channel for reporting E&S performance to IFC."¹²⁰

5.3.2 Ineffective E&S supervision focused on Ukraine operations

Axzon's Ukraine operations required a higher level of scrutiny due to the country's weaker regulatory context compared with the client's operations subject to EU regulations, and the recurrent community grievances about Danosha's facilities, including the complaint to CAO. Despite this context, IFC's supervision efforts of Axzon's Ukraine operations fell short in addressing ongoing issues related to community health and pollution prevention.

Between submission of the complaint to CAO in 2014 and 2020, the grievance logs for Axzon's Ukraine pig farming operations recorded 20 to 60 complaints a year from local residents.¹²¹ The most common issues reported related to roads (namely road damage, machinery blocking roads, dust, or speeding), odor, land usage, and damage to residents' crops (due to mistakes made driving, spraying, or sowing).¹²²

Earlier in the investment (2014/2015), IFC inquired with the client about community grievance issues in Ukraine, especially related to manure management and water quality, but CAO found no available information that IFC continuously monitored these issues via the client's performance reviews.

It was not until 2019, the sixth year of the investment, that IFC started following up and working with the client to address the recurring complaint issues reported in the AMRs.⁶⁵ Unlike earlier supervision, IFC's reviews of the 2019 and 2020 AMRs include documented review of the

¹¹⁸ IFC 2012 Sustainability Policy, para. 45.

¹¹⁹ Review of AMRs is a core supervision responsibility of the E&S specialist. See ESRP (version 2016), section 6, 2.1 on supervision responsibilities.

¹²⁰ IFC, ESRP (version 2016), section 6.2.3.

¹²¹ The client provided IFC with country-specific grievance logs as annexes to most AMRs.

¹²² CAO complainants raised other issues as well. For instance, in February 2017 the complainants informed CAO of emission permit issues that led to local residents and their representatives bringing a court case against the client over incorrect emissions data submitted to renew Danosha's air emissions permit for Luka Farm. The court confirmed in a 2017 judgment that the client had submitted incorrect air emissions data to the State authorities. See, Resolution of the Ivano-Frankivsk District Administrative Court, Case No. 809/437/17, May 11, 2017, <https://officecao.org/3QEKZlx>; and Resolution of the Lviv Administrative Court of Appeals No. 876/7013/17, October 12, 2017, <https://officecao.org/41o2rkS>.

grievance logs, with IFC raising with the client the high level of grievances across operations and the need to respond and train staff adequately to prevent recurrence of similar issues.

5.3.3 Deficient review of key environmental monitoring data and assessments

For the period 2014 to 2018, CAO found no evidence that IFC adequately reviewed key environmental data against its own EHS Guidelines and the project Environmental Impact Assessments,¹²³ although such action was necessary to supervise the project's environmental and social risks and impacts effectively. CAO notes that IFC's supervision documentation contains limited analysis of Axzon's E&S Management System and performance against E&S risks and impacts, but IFC nonetheless repeatedly rated the client's E&S performance as Satisfactory, and once as Excellent.

CAO identified deficiencies in IFC's review of environmental data and assessment in the following areas:

- **Lack of environmental monitoring data in AMRs.** Axzon's AMRs included limited environmental data on Ukrainian operations yet IFC did not ask the client for additional data to be annually reported, despite the known E&S risks from pig farming operations. Axzon's reporting at the farm level only included data on air emissions. Moreover, this data was identical across monitoring points for several years of AMR reporting, which calls into question whether IFC received accurate air pollution levels from the client. This issue was not raised by IFC in any of its reviews of the client's annual monitoring reports. After the client informed IFC in 2018 that it had started to discharge wastewater into the municipal sewage system, IFC did request effluent monitoring data, including for BOD, COD, and nitrogen. However, the client failed to include this information in its 2020 AMR, the final report submitted before IFC exited the project. Therefore, there is no evidence that IFC reviewed effluent monitoring data to establish whether the client's Ukrainian pig farms were meeting EHS standards. Other communications between IFC and the client show that some parameters (e.g., water quality analysis of groundwater wells in 2014) were requested by IFC and later provided by Axzon, but not as part of the annual client reporting and IFC review process.
- **Environmental Inspection reporting.** In the Ukrainian regulatory context, reviewing EIs conducted by the environmental inspection authorities was key to assessing the E&S performance of the client's farm operations. EIs are scheduled annually in Ukraine to verify compliance with permits and other regulatory requirements, including for water and air quality. The client reported that the government placed bans on conducting EIs for a period of time during 2015-2018. During this period, IFC could not assess whether the client was in compliance with national environmental regulatory requirements. Yet IFC's supervision records made no reference to the inspection bans until 2019, while noting in some AMR reviews that no issues with Axzon facilities had been identified by Ukraine's environmental inspection authorities.

¹²³ During IFC supervision, the client conducted two EIAs for farms related to this complaint that were approved by Ukrainian authorities and required comprehensive IFC review in order to effectively supervise the project. Delievo Farm was still under construction when the updated EIA was approved in 2013, which meant IFC should have considered this farm a high-risk asset within the client's portfolio, and part of IFC's monitoring plan for the project. The same circumstances applied to the Luka Farm incinerator EIA, which was approved in 2017.

- **Review of EIAs.** There is no evidence that IFC reviewed relevant EIAs for the three farms subject to this complaint, nor for any other farm in Ukraine between 2013 and 2018. This inaction occurred despite the fact that IFC was aware that the CAO investigation included community concerns related to EIAs and public consultations.¹²⁴ In particular, CAO found no evidence that IFC reviewed the EIA for the Delievo expansion to verify whether increasing the farm's animal capacity warranted corrective actions given possible impacts related to changes in water use, manure production, and risks of excessive odor, air emissions, and noise.¹²⁵ IFC's supervision records provide no evidence that it asked the client about a new EIA for Luka's farm incinerator—built in 2017—until 2019.

5.3.4 Limitations in IFC assessment of risks to community health, resource efficiency, and pollution prevention

In addition, IFC supervision records and actions regarding risks to community health, resource efficiency and pollution prevention associated with Axzon's operations in Ukraine, were limited. In Section 2, CAO identified five areas related to such risks where supervision actions would have been expected based on the known E&S management issues associated with the pig production industry and IFC's knowledge of local E&S grievances and the CAO complaint. Below is CAO's analysis of IFC's supervision shortcomings in each of these areas, based in part on information CAO gathered during its 2018 field mission and through engagement with complainants and IFC.

- **Manure management and application:** CAO recognizes the client had in place a manure management system that was appropriate and in accordance with the EHS Guidelines. In addition, CAO acknowledges that IFC made significant efforts at the beginning of the project to ensure the client implemented ESAP action items related to manure management. However, CAO was unable to confirm that this system was effectively implemented due to lack of sufficient client data and inadequate supervision records. In particular, there is no evidence in documents shared with CAO that: the lagoon capacity for the three farms named in this complaint was sufficient; the frequency with which the lagoons were emptied was consistent with national regulations and the EHS Guidelines for Mammalian Livestock; and E&S risks such as odor, air pollution, and water and soil contamination were prevented and adequately minimized. The lack of monitoring data related to water quality for local rivers and monitoring wells as well as inconsistencies in air emissions reporting in the client's AMRs hampered IFC's supervision activity of its client's Ukraine operations.

On pig manure application as a fertilizer, CAO acknowledges the client had a manure spraying policy in place but notes that little information was reported by the client on

¹²⁴ See section 1.3.1 of this report. IFC was aware of the issues raised in the complaint since 2014.

¹²⁵ CAO understands that a 2005 letter from the Deputy Chief Sanitary Doctor at the Ministry of Health was the basis for the 2013 EIA's conclusion that the update in Delievo Farm capacity would not change the E&S risks and impacts. This letter stated that "when farms keep sows with small pigs, they amount [i.e., are equivalent] to one old pig". However, there are conflicting views on whether this interpretation is consistent with the Ukrainian regulatory classification of pigs based on age and weight, which would consider sows with small pigs to require more resources than finishers and produce more manure. Some Ukrainian regulations identify differentiated water needs and manure production for different pig categories, with sows with piglets estimated to require four times the amount of water daily than finishers. Additionally, a change in pig capacity may require adjustments in the Sanitary Protection Zones (SPZ), which provide a protective buffer around industrial facilities to ensure there are no excessive air emissions, odor, or noise impacts on residential areas beyond such zones. See the 2013 EIA for Delievo Farm, p.67, and the typology of pigs described in the 2005 Pig Farm Complex Regulation (PFR), Ukraine, PFR/ BHTП-АПК-02.05 "Pig farms (complexes, farms, small farms)", Table 18, p.48.

associated schedules. Calendars shared in AMRs designate only the days on which the client does not spray. It is unclear whether the client uses other calendars for spraying, which contain specific information to each farm.¹²⁶ Moreover, IFC's supervision documents record complaints about manure spraying that were not adequately addressed by the client, and which IFC did not follow up on. CAO concludes there is insufficient evidence that IFC ensured the client provided adequate communication and notice to residents on spraying schedules.

During IFC supervision, the client generally did not report water quality monitoring data for Ukraine, nor did IFC request this information during the early years of the investment. However, in 2017, the client reported exceedances of ammonia in the groundwater monitoring wells next to the storage lagoons at Luka Farm, which could indicate groundwater contamination.¹²⁷ Additional information provided to CAO by IFC and the client suggests these exceedances had been an issue since 2015. While the client reported taking corrective measures to repair the lagoons in 2017,¹²⁸ CAO finds insufficient evidence that IFC verified these measures had been taken and were effective. While this could have been an issue that IFC addressed in its fourth supervision visit in 2019, CAO's understanding is that none of the farms subject to the complaint were visited at that time. Closer IFC supervision, based on adequate environmental data, could have detected these shortcomings and potentially prevented water contamination and/or helped the client to readily react to this type of incident.

Finally, the change in Delievo's farm animal capacity could have required a change in sanitary protection zone distances (SPZ) under Ukrainian law to protect nearby residents from excessive air emissions and odor of increased manure production. IFC did not follow up on this issue, nor reviewed the 2013 Delievo EIA to assess these relevant risks and impacts.

- **Carcass management:** There is evidence in Axzon's reporting over several years that residents complained publicly about odor, and that CAO complainants raised sanitary concerns about carcass transport through their villages. Yet, IFC did not verify during supervision whether the client's ESMS and its implementation at the farms met PS3 requirements to apply principles and techniques consistent with applicable EHS Guidelines/GIIP to the storage, transport, and disposal of carcasses. Not until 2019 did IFC begin to follow up with its client on specific measures to address recurrent community grievances.

¹²⁶ IFC EHS Guidelines on annual crop production would require a level of specificity that was not reported by the client. These require, for example, not applying manure if meteorological conditions are likely to result in adverse impacts in surrounding communities. See World Bank Group Environmental, Health, and Safety Guidelines for Annual Crop Production, March 30, 2016, para. 55, <https://officecao.org/41rZvUa>.

¹²⁷ The information CAO had access to was unclear about which parameters the client used as a reference. However, since Axzon's facilities in Ukraine are governed by national regulations, these parameters are probably national acceptable standards for underground waters or drinking water given that wells are used for human consumption in this area. CAO checked the WHO guidelines for drinking water, which recommend limits for ammonia in water as follows: "threshold odour concentration of ammonia at alkaline pH is approximately 1.5 mg/l, and a taste threshold of 35 mg/l". These guidelines are also referenced in IFC's EHS Water and Sanitation Guidelines at <https://officecao.org/4iMgUOM>.

¹²⁸ Information reviewed by CAO in the 2017 AMR suggests that the client took corrective actions, and that after the lagoon improvements were completed monthly water testing reports came back clear.

In its mission, CAO observed that in the case of Lany and Delievo the carcasses were not stored in locations with a cooling system before transportation for offsite disposal.

- **Wastewater management:** There is little information on wastewater effluents in IFC's reporting. After the client informed IFC that it had started to release wastewater effluents into the municipal sewage system in 2018, IFC followed up by asking for parameters on Ukraine operations. However, CAO notes that there is no indication the client shared this data with IFC before the investment exit in 2021, or that IFC verified when Axzon started to discharge effluents for each of its facilities in Ukraine.¹²⁹

Due to the limited information available in Axzon's reporting,¹³⁰ CAO requested and independently analyzed¹³¹ client wastewater data from 2017 for the Luka farm, finding shortcomings. In particular, key parameters for phosphate and bacterial concentrations were not being monitored, as required by Ukrainian water permits for special water use.¹³²

- **Water extraction:** There is no evidence that IFC supervised the client's water use system and potential impacts adequately, even when changes were made to Delievo Farm's capacity. CAO acknowledges that IFC followed up with the client in 2015 on water extraction issues when IFC learned about the CAO complaint and the issues raised by communities affected by Danosha's operations. However, CAO could not confirm from supervision records that this level of effort was maintained throughout the investment. The high-risk categorization of this project after the CAO complaint and the reduced scope of IFC's due diligence review on this topic should have prompted IFC to closely look at water use, particularly in relation to Delievo Farm. However, because IFC did not review the 2009 or 2013 EIAs, it did not assess the water capacity aspects of these assessments.¹³³
- **Road traffic-related impacts:** Despite the significant number of complaints about road conditions made by communities living near the Ukraine pig farms, IFC did not assess their potential impacts on road wear and dust generation. Axzon repeatedly reported these complaints in its AMRs, yet there is no indication that IFC verified whether the client had policies and procedures in place commensurate to the potential impacts. Specifically, there is no evidence that IFC reviewed the client's road traffic policy, its traffic in the area, or communications and agreements between the client, village authorities, and residents.¹³⁴

¹²⁹ In 2019, IFC noted after a site supervision visit to several Ukrainian farms, that all of them had wastewater plants. No further information was requested nor provided on effluent monitoring data.

¹³⁰ During its 2018 mission, CAO found that sanitary wastewater from the Luka farm is treated at a wastewater treatment plant (WWTP) and then discharged into a stream which flows into the Burkach river. In the visit, the client confirmed there had been two accidental discharges of untreated wastewater from the WWTP into the river in 2016 and in 2018 due to WWTP malfunction. Complainants noted that they informed the environmental inspector about both incidents, and that the client was fined.

¹³¹ This data was provided by the client during the CAO field mission in 2018. Complainants also mentioned that results of wastewater discharges from Luka carried out by the EI twice in 2018, included excessive concentrations of P, suspended solids, BOD, NH4 by comparison with norms approved by the Permit (inspections conducted in 19.03.2018 and 13.06.2018).

¹³² Permit №Укр-1245-A-ІВ-Фр of 01.06.2017 (Luka farm).

¹³³ CAO notes that the water permit granted to Delievo Farm is based on water use three to four times higher than the one estimated in the EIA, and exceeds the maximum level of water use per farm provided for by Ukrainian regulation (based on the typology of pigs at the farm).

¹³⁴ CAO received access in 2018 to the Goodvalley Traffic Policy, which is undated. There is no indication that IFC reviewed this policy during supervision.

IFC did note that the client used a social fund to address some road maintenance issues, and inquired why this approach was ineffective as complaints on these matter continued to occur.¹³⁵

5.4 CAO Findings

CAO finds that, from 2014 through 2018, IFC's supervision of the client's application of its E&S Management System to pig farming operations in Ukraine was limited in scope and depth. IFC was not able to assess with confidence whether the project met the applicable requirements of Performance Standard 1, including whether the measures and actions identified in the client's management program were "commensurate with the project's risks and impacts." (PS1, para. 15). **CAO therefore finds that IFC supervision was not compliant with IFC's responsibility "to seek to ensure through its ... monitoring, and supervision efforts, that the business activities it finances are implemented in accordance with PS requirements" (Sustainability Policy, para. 7).**

In addition, **CAO finds that for the first five years of its investment (2013-2018), IFC was not compliant with the Sustainability Policy requirement to conduct regular, adequate, and effective supervision (para. 45).** IFC failed to conduct timely and adequate reviews of AMRs and other project-related information that became available, to "assess the status of project's compliance with the PS and other specific E&S requirements agreed at commitment" (ESRP versions 2013 and 2016, 6.1).

Consistent with CAO's findings of IFC non-compliance with para. 7 of the Sustainability Policy, **CAO finds that IFC's supervision of the client's manure and wastewater management, and potential impacts related to air, water, and soil pollution at the three subject farms did not provide assurance that the client's operations were being implemented in accordance with PS3, PS4, and GIIP, and with its responsibility under the PS Overview (para. 5) to comply with applicable national law.** Axzon's lack of reporting on wastewater effluent discharges and water quality monitoring, and on how manure was managed, limited IFC's ability to assess the client's management of environmental risks and impacts. This is particularly true for the Delievo Farm operations with respect to manure management, given uncertainties about the farm's capacity, and for Luka Farm in relation to excess ammonia in groundwater.

Finally, CAO finds that IFC's supervision of the client, particularly between 2014 and 2018, was not consistent with ESRP requirements (Section 10.2.2-3) for "closer scrutiny and supervision of investments" in IFC's E&S high-risk projects list.¹³⁶

¹³⁵ During CAO mission, the client explained to CAO that it had a social fund to which communities can apply for grants for projects of their choice.

¹³⁶ ESRP versions 2013 and 2016, Section 10: High-Risk Projects Listing.

6. Harm to Complainants

In this section, CAO addresses potential adverse impacts on the health and wellbeing of community members living near the three pig farming operations subject to the CAO complaint. CAO only analyzes Harm that may be attributed to the project and are relevant to complainants' allegations.

A CAO compliance investigation includes findings of Harm related to IFC non-compliance. Harm is defined as “[a]ny material adverse environmental and social effect on people or the environment resulting directly or indirectly from a Project or Sub-Project. Harm may be actual or reasonably likely to occur in the future.”¹³⁷

In assessing whether there is harm related to a non-compliance finding, CAO takes into account whether such non-compliance contributed to an absence of data or information to verify the complainants' allegations of harm. In such circumstances, CAO may find there are indications of related harm or potential harm when it is reasonably likely that the alleged harm occurred or could happen in the future, given such non-compliance.

6.1 Manure Management

The adverse impacts of manure odor and associated pollutants on local communities situated downwind of livestock farms are well-documented.¹³⁸ In the current case, complainants consistently complained about this issue starting in 2014.¹³⁹ Shortcomings in IFC's supervision of the client's manure management and distribution at the three farms subject to this complaint, particularly Delievo and Lany, mean that there is insufficient information to demonstrate that the client's manure management was adequate. In addition, the change in Delievo's animal capacity could have required a change in sanitary protection zone distances (SPZ) under Ukrainian law to protect nearby residents from excessive air emissions and odor impacts.¹⁴⁰ Given that the SPZ was not changed, associated odor nuisances and health impacts are possible. CAO therefore concludes that there are indications of Harm due to excessive odor related to IFC non-compliances discussed in Sections 4 and 5 of this report.

Specific to Luka Farm, IFC's limited supervision of the client's wastewater management system combined with reported ammonia exceedances in groundwater near the lagoons from 2015-2017, lead CAO to conclude that it is plausible that the farm was adversely impacting groundwater quality from 2015 to 2017. As a result, CAO concludes that there are indications of Harm to the

¹³⁷ CAO Policy, glossary.

¹³⁸ Research has demonstrated a strong connection between odor emissions from livestock farms and physical and mental health. Odor emissions are linked to respiratory and nervous system damage, and long-term exposure to ammonia (NH₃), hydrogen sulfide (H₂S), and volatile organic compounds (VOCs) can lead to damage to the liver and nervous system. VOCs, such as benzene and acetaldehyde are carcinogenic, which could exacerbate health risks. In addition, unpleasant odors can cause psychological effects such as negative emotions and stress. See, Tiantian Cao, Yunhao Zheng, and Hongmin Dong. “Control of odor emissions from livestock farms: A review,” *Environmental Research* 225, May 2023, <https://officecao.org/43dPDjd>.

¹³⁹ During CAO's mission, CAO heard complaints about odor from residents living next to Luka, Delievo, and Lany farms. Vodnyky residents living 694m west of Lany farm, notified CAO that children could not visit their grand-parents in the village due to the odor, that they perceive cannot sell their homes due to the proximity to the pig farm, and complained about increase in allergies. Starting in 2016, client's AMR grievances annexes also include complaints related to odor nuances.

¹⁴⁰ Depending on a farm's animal capacity, the sanitary protection zones may vary from 500 meters to 1,500 or 2,000 meters, according to the Order of the Ministry of Health protection #173 of June 19, 1996.

complainants related to groundwater quality, related to IFC non-compliances regarding the supervision of wastewater management.¹⁴¹

6.2 Carcass Transport and Management

Inadequate carcass storage and transport can lead to excessive odor and the spread of diseases.¹⁴² CAO identified shortcomings in IFC's due diligence and supervision of such risks in relation to Axzon's Ukraine operations, and the client was observed to not store carcasses in refrigerators.¹⁴³ CAO therefore concludes that there are indications of Harm in relation to inadequate sanitary hygiene and excessive odors, related to IFC's non-compliances.

Moreover, lack of an adequate client EIA stakeholder process prevented villagers near the farms from raising concerns over carcass transport through their villages. The absence of opportunity to raise these concerns, through participation in a stakeholder engagement process, constitutes Harm to the complainants.

6.3 Wastewater Management

Given the shortcomings in IFC's supervision of the client's systems and monitoring data, CAO considers it plausible that there was or could be environmental impacts and contamination of the Burkach River linked to the Luka Farm. Additionally, CAO's limited observations during its 2018 mission confirmed inadequate monitoring of key parameters specified in the farm's permit for special water use,¹⁴⁴ including phosphate and bacterial concentrations. While CAO does not have sufficient evidence to conclude that there was Harm to downstream residents or ecosystems, this cannot be ruled out.

¹⁴¹ The WHO indicates that "the presence of ammonia at higher than geogenic levels is an important indicator of fecal pollution" and that "ammonia has a toxic effect on healthy humans only if the intake becomes higher than the capacity to detoxify." It further explains that, in higher concentrations, ammonia "influences metabolism by shifting the acid-base equilibrium, disturbing the glucose tolerance, and reducing the tissue sensitivity to insulin." Other negative impacts of high concentrations of ammonia in drinking water were found in laboratory animals and an in vitro test system, including significant decreases in bone mass, inhibition of fetal growth, and increased blood pressure. Considering these effects, the WHO recommends a threshold odor concentration of ammonia in water of approximately 1.5 mg/litre and a taste threshold of 35 mg/litre. See WHO, Guidelines for drinking water, 2017, <https://officecao.org/4bJHa9K> and WHO, Ammonia in Drinking Water, Background Document for Development of WHO Guidelines for Drinking-Water Quality, 2003, <https://officecao.org/3XRPE95>.

¹⁴² FAO highlights the relevance of adequate carcass management to prevent animal disease outbreaks and its potential negative effects in animals, humans, and the environment. It has also noted that "carcass management can be very challenging" and that "there may be significant biosecurity and environmental risks from carcass management techniques, depending on how they are implemented. For example, storage of carcasses prior to disposal can risk spread of pathogens through several routes, such as attracting flies; liquids may leach to ground and surface water during storage and burial; burning may produce hazardous air emissions; and improperly constructed compost piles may not inactivate pathogens." See FAO, Carcass Management Guidelines: Effective Disposal of Animal Carcasses and Contaminated Materials on Small to Medium-Sized Farms, 2020, <https://officecao.org/3DQKd3r> and FAO, "Carcass Management for Small- and Medium-Scale Livestock Farms, Practical Considerations," *Focus On* No. 13, Oct., 2018, <https://officecao.org/3FvipCj>. Scientific studies have also linked prevention of livestock epidemics and odor emissions to adequate management of carcasses in pig farms. See, Ki, Bo-Min, et al., "Characterization of odor emissions and microbial community structure during degradation of pig carcasses using the soil burial-composting method," *Waste Management* 77 (2018), 30-42, <https://officecao.org/3DFL1rR>.

¹⁴³ In its mission, CAO observed that in the case of Lany and Delievo the carcasses were not stored in locations with a cooling system before transportation for offsite disposal.

¹⁴⁴ Permit №Укр-1245-А-Ів-Фр of 01.06.2017.

It is also possible that wastewater from the other farms subject to the CAO complaint could be sources of water pollution, given the inadequacy of the client's monitoring practices and its incidents reported by Ukrainian environmental inspectors.¹⁴⁵

6.4 Water Extraction and Use

Based on 2018 interviews with stakeholders, CAO notes general agreement that there had been local water shortages in recent years and that the abstraction wells had become drier. This situation is likely to have been caused by several factors, possibly including but not limited to the client's operations.¹⁴⁶

For Delievo village, it is difficult to establish causes of the water shortage since there was no baseline study of groundwater availability nor a cumulative impacts study of water usage by companies operating near Delievo. However, shortcomings in IFC's due diligence and supervision of the original and revised EIAs for Delievo Farm, compounded by (i) the lack of an assessment of the client's water intake in preparation for the 2009 and the 2013 EIAs, (ii) the lack of assessment of cumulative impacts by the client and nearby quarries, and (iii) the possible increased use of water due to expansion of the pig population, make Danosha's water use a plausible contributor to decreased groundwater availability around Delievo Farm. There is not, however, sufficient evidence to confirm that the IFC client's water use adversely impacted Delievo residents.¹⁴⁷ Therefore, CAO cannot conclude that there was Harm related to IFC's non-compliance.

6.5 Road-related Impacts

Given complainants' repeated concerns over road impacts, it is plausible that the client's movement of large machinery caused some road damage. However, it is not possible to confirm Harm to the complainants given the lack of documented evidence on vehicle movements, their frequency, and potential cumulative impacts from other companies. CAO notes that the client did take several measures to mitigate and offset the impacts of its trucks.

Given that large machinery creates dust, it is likely that there were dust impacts caused by the passage of the trucks. However, CAO does not have sufficient evidence to assess and confirm the extent of such dust nuisance and related Harm on communities.

¹⁴⁵ Based on CAO wastewater analysis of Luka farm data and information provided by complainants on 2018 EI inspections, both mentioned earlier in the report.

¹⁴⁶ Such as water use by quarries situated near to Delievo Farm and climate change/weather-related effects. For example, information from the Dnister Basin Department in 2018 noted low rainfall over the past five years.

¹⁴⁷ The high level of water use in livestock farms is well established. See, for example, S.B. Little, et. al "Water consumption and wastage behaviour in pigs: implications for antimicrobial administration and stewardship," *Animal*, Volume 16, Issue 8, August 2022, <https://officecao.org/4hATdaK>. However, studies on water scarcity and livestock production have established that livestock can have neutral or positive influences on water resources depending on the farm's location. See Michel Doreau et al., "Water use by livestock: A global perspective for a regional issue?," *Animal Frontiers*, Volume 2, Issue 2, April 2012, pp. 9–16, <https://officecao.org/41KU1E5>.

7. Underlying Causes of Non-Compliance

CAO's analysis of the complaint issues brought by local communities found several underlying and common factors that contributed to IFC non-compliances in its due diligence and supervision of Axzon. In addition to the factors discussed below, IFC's deficient pre-investment due diligence of E&S risks and impacts contributed to IFC's non-compliance and potential related Harm to communities during the eight years that IFC supervised the investment.

7.1 Lack of IFC Analysis of Environmental Risks and Impacts from Individual Farms

IFC's initial assessment of the project's E&S impacts and risks focused primarily on assessing the performance of Axzon as a corporation. In spite of the availability of farm-level EIAs and the well-documented impacts and risks of water and air pollution posed by this sector, there is no record of IFC reviewing the EIAs for the individual farms financed by the project. Without that analysis, IFC was not in a position to determine whether the Ukrainian operations, which were not subject to EU regulation, would meet the Performance Standards. Nor was IFC in a position to effectively monitor and supervise its client's operations in Ukraine in order to address any E&S issues that arose during project implementation.

IFC overlooked the specific risks and impacts of Axzon's operations at facility level despite the nature and scale of environmental and health related impacts and risks from large-scale commercial pig farming, as well as the constrained regulatory context in Ukraine. CAO considers that an E&S risk-based approach to this investment would have required IFC to focus on its high-risk operations—in this case, those in Ukraine and Russia. Taking this approach would also have required IFC to review a sample of the Ukrainian farms' E&S Management Systems and relevant EIAs against IFC requirements,¹⁴⁸ and to assess the client's compliance with relevant Ukrainian E&S regulations and IFC PS requirements.

Moreover, the existence of community complaints against Axzon's operations in Ukraine prior to the investment should have alerted IFC to the possibility of environmental and health impacts and risks and the need for due diligence and supervision commensurate with these risks.

CAO acknowledges the difficulties of applying IFC requirements to a vertically integrated group like Axzon, with multiple operations and assets across locations and countries. However, CAO considers that for these types of projects IFC's pre-investment E&S due diligence should be informed by evaluating a sample of farms, giving priority to the selection of high E&S risk assets within the client's portfolio. This would allow for an appropriate understanding of the project's E&S risks and impacts, and an assessment of the client's capacity to adequately manage and mitigate them.¹⁴⁹

7.2 Lack of Environmental Monitoring Data and Meaningful Supervision

IFC's lack of sufficient E&S due diligence also had knock-on adverse effects on the project's supervision. Because IFC's due diligence lacked sufficient analysis of site-specific risks and impacts, it was unable to develop a monitoring framework to adequately supervise Axzon's

¹⁴⁸ CAO's view, as explained earlier in the report, is that IFC should have reviewed the EIAs for the facilities under construction in Ukraine while the project was undergoing due diligence and supervision.

¹⁴⁹ IFC's own guidelines have already evolved in this direction, requiring that when a client has multiple investment projects, or multiple assets within a single project, the annual Supervision Monitoring Plan covers a representative number of client projects or assets. IFC ESRP (version 2025), para. 5.12.

management of environmental and community health risks, in particular to air and water quality. IFC's favorable ESDD was mainly based on the client's commitment to good E&S practices and standards, including its ESMS and the application of EU regulations across its operations. However, IFC did not possess sufficient and differentiated evidence of past and present E&S practices at the operational level, supported with relevant environmental data from individual farms, to support this conclusion.

IFC's lack of consistent scrutiny of Axzon's operations in Ukraine during supervision, particularly between 2013 and 2018, was also characterized by deficiencies in the review of annual monitoring reports. IFC failed to note frequent absences and inconsistencies related to monitoring data for air emissions, and surface and groundwater quality, reported by the client. IFC's reports on the AMRs, which repeatedly found the client's performance 'satisfactory', did not systematically review key parameters for these environmental impacts against EHS standards. IFC's supervision during 2013-2018 also failed to address E&S incidents and mitigation measures or how the company was handling community grievances, and generally lacked diligence in reviewing and requesting relevant government permits, authorizations, and environmental data. The lack of attention to air and water monitoring, in particular, significantly undermined IFC's ability to effectively supervise and assist Axzon in addressing issues raised by community members.

8. Recommendations and Next Steps

Following a compliance investigation, CAO makes recommendations as needed to: (i) remediate project-level non-compliances and related harm (project-level recommendations) and (ii) prevent IFC future non-compliances (systemic recommendations).

8.1 Project-level Recommendation

Given the current context in Ukraine and that IFC exited this investment in 2021, CAO acknowledges the challenges of engaging with its former client. Consequently, CAO is proposing only one project-level recommendation in this case, considering the findings of non-compliance and potential Harm to local communities.

- 1. IFC should consider approaching its former client, potentially utilizing IFC Advisory Services, to collaboratively address and resolve the shortcomings identified in this investigation related to the complaint issues raised by communities.*

Additionally, CAO notes that in the event IFC engages again with this client, IFC should pay special attention to the deficiencies identified in this case in the management and monitoring of environmental risks and impacts associated with large-scale pig farms, especially those related to air quality, water, and manure management, road related impacts, and carcass transport and management.

8.2 Systemic-level Recommendation

CAO has made recommendations in recent compliance investigation cases (Awba, Salala, and Bridge-01) addressing the need for site-specific E&S due diligence and supervision, including the

review of relevant ESIAs, before the IFC Board approves a project.¹⁵⁰ In response, IFC made important changes to the E&S Review Procedures (2025) for its investment projects. These amendments clarify the scope of IFC's due diligence and supervision, specifying the documentation to be reviewed during due diligence,¹⁵¹ the scope of ESAP items (including their feasibility and whether they should be linked to conditions of commitment)¹⁵² and enhancement of Supervision Monitoring Plans.¹⁵³

CAO notes these actions entail significant progress and help address the underlying causes of noncompliance mentioned in this report. However, CAO recommends one additional measure:

2. *Develop guidance for IFC staff (i.e. through a tip sheet or the equivalent) on due diligence and supervision of corporate loan investments to complement the ESRP, to ensure that:*
 - a. *Local risks and impacts, at site level, are adequately assessed and monitored by reviewing relevant environmental data and parameters. This may require revising tip sheets on how legal agreements, annual reporting templates, and ESAP items are drafted.*
 - b. *Concerns from local community members that emerge during the life of the investment are considered by IFC in timely fashion, as part of IFC's supervision activities for the project, and that timeline resolution is supported.*

8.3 Next Steps

Under the CAO Policy, IFC has 50 working days to prepare a Management Response to a completed compliance investigation. To address CAO non-compliance findings and related Harm, if any, the management response will include a Management Action Plan (MAP) comprising time-bound remedial actions proposed by IFC for approval by the Board. Based on the findings of this compliance investigation, IFC will prepare for Board approval a Management Action Plan to address the findings, following consultation with the former client and complainants. CAO's compliance function will monitor the effective implementation of the IFC Management Action Plan but will not consider non-compliance findings for which there is no corresponding corrective action in the MAP.

Once the Board approves the MAP, CAO's investigation report, the Management Response, and the MAP will be published on CAO's website, in English and Ukrainian, at <https://www.cao-ombudsman.org/cases>.

¹⁵⁰ See: Myanmar: Myanma Awba Group Company Ltd.-01/Myanmar, <https://officecao.org/3GhJGs5>; Liberia: Salala Rubber Corporation (SRC)-01/Margibi & Bong Counties, <https://officecao.org/4iFHmcw>; and Kenya: Bridge International Academies-01/Kenya, <https://officecao.org/43I9qYD>.

¹⁵¹ ESRP (2025) para. 4.30 clarifies that IFC should review existing E&S studies (including ESIAs) available prior to project approval. It also references PS1 Guidance Note 1, which directs IFC clients to conduct ESIAs for facilities likely to generate potential significant E&S risks and impacts.

¹⁵² ESRP (2025), para. 4.33, states that these items could include a mixture of investments in tangible assets, strengthening of E&S management systems, capacity, and organization, or elaboration of additional studies. IFC is also now required to consider whether the client has the time and resources available to support ESAP implementation, and whether these action items should be conditions of commitment before disbursements in the legal agreement.

¹⁵³ ESRP (2025), paras. 5.13 and 5.14.

ANNEX A. Distances between Delievo, Lany, and Luka farms and the complainant villages of Delievo, Lany, Sivka-Voynylivska, and Vodnyky

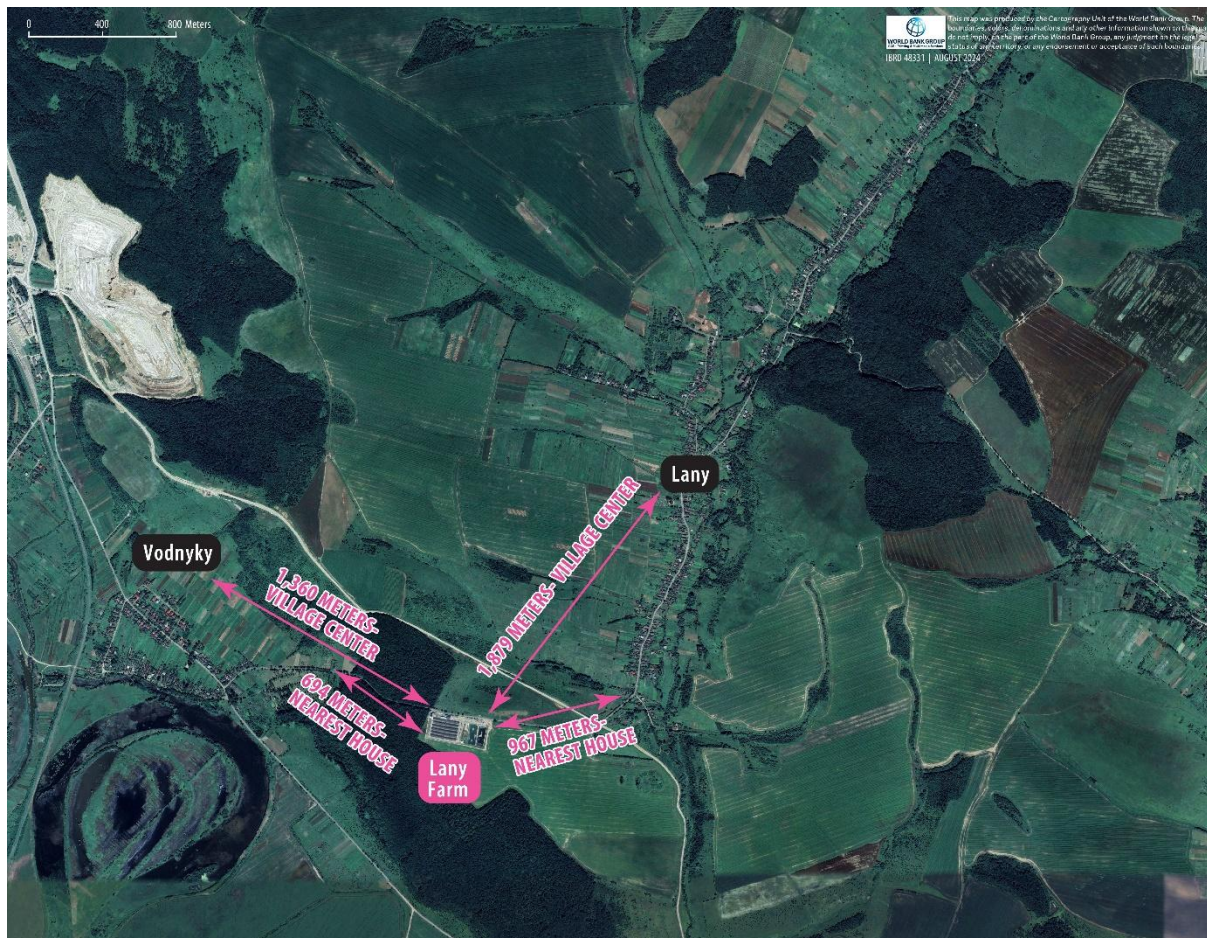
Map 1: Distance between Delievo farm and the village Delievo



Source: Google, 2017. This map was produced by the Cartography unit of the World Bank.

Notes: 1) Distances in miles: 1,063m = 0.66 miles; 1,236m = 0.77 miles. 2) Distance calculations use as departing point the center of the farm. The first measurement is to the center point of the village and the second is to the nearest house within the village boundary.

Map 2: Distance between Lany Farm and the villages of Lany and Vodnyky



Source: Google, 2017. This map was produced by the Cartography unit of the World Bank.

Notes: 1) Distances in miles: 1,360m = 0.84 miles; 694m = 0.43 miles; 1,879m = 1.17 miles; 967m = 0.6 miles. 2) Distance calculations use as departing point the center of the farm. The first measurement is to the center point of each village and the second is to the nearest house within each village boundary.

Map 3: Distance between Luka Farm and Sivka-Voynylivska village



Source: Google, 2017. This map was produced by the Cartography unit of the World Bank.

Notes: 1) Distances in miles: 3,102m = 1.93 miles; 2,876m = 1.79 miles. 2) Distance calculations use as departing point the center of the farm. The first measurement is to the center point of the village and the second is to the nearest house within the village boundary.

ANNEX B. CAO Non-Compliance Findings and Recommendations

CAO Findings of Non-Compliance	
IFC E&S Due Diligence	
CAO finds that contrary to the requirements of the Sustainability Policy para. 26, IFC's pre-investment review was not commensurate with the nature and scale of the business activity, and with the level of E&S risks.	
CAO finds that contrary to the Sustainability Policy para. 22, IFC did not assure itself during due diligence that the client could be expected to meet the requirements of the Performance Standards within a reasonable period of time.	
CAO finds that contrary to the Sustainability Policy paras. 27 and 28, IFC did not verify that the E&S risks and impacts of operations in Ukraine were adequately identified through the review of EIAs and addressed in the client's ESMS.	
CAO finds IFC non-compliant with the requirement in the Access to Information Policy (para. 31(a)vi) for the ESRS to include electronic copies or web links to "any relevant" ESIA prepared by or on behalf of the client.	
IFC Supervision	
CAO finds that IFC was not able to assess with confidence whether the project met the applicable requirements of Performance Standard 1, including whether the measures and actions identified in the client's management program were "commensurate with the project's risks and impacts." (PS1, para. 15). IFC supervision was not compliant with IFC's responsibility to seek to ensure through its monitoring, and supervision efforts, that the business activities it finances are implemented in accordance with PS requirements (Sustainability Policy, para. 7).	
CAO finds that for the first five years of its investment (2013-2018), IFC was not compliant with the Sustainability Policy requirement to conduct regular, adequate, and effective supervision (para. 45).	
CAO finds that IFC's supervision of the client's manure and wastewater management, and potential impacts related to air, water, and soil pollution at the three subject farms did not provide assurance that the client's operations were being implemented in accordance with PS3, PS4, and GIIP, and with its responsibility under the PS Overview (para. 5) to comply with applicable national law.	

CAO Project-Level and Systemic Recommendations	
Project-level Recommendations	
1.	IFC should consider approaching its former client, potentially utilizing IFC Advisory Services, to collaboratively address and resolve the shortcomings identified in this investigation related to the complaint issues raised by communities.
Systemic-level Recommendations	
2.	Develop guidance for IFC staff (i.e. through a tip sheet or the equivalent) on due diligence and supervision of corporate loan investments to complement the ESRP, to ensure that: a. Local risks and impacts, at site level, are adequately assessed and monitored by reviewing relevant environmental data and parameters. This may require revising tip sheets on how legal agreements, annual reporting templates, and ESAP items are drafted. b. Concerns from local community members that emerge during the life of the investment are considered by IFC in timely fashion, as part of IFC's supervision activities for the project, and that timely resolution is supported.