

INTERNATIONAL FINANCE CORPORATION

**MANAGEMENT REPORT AND MANAGEMENT ACTION PLAN
IN RELATION TO THE CAO COMPLIANCE INVESTIGATION REPORT**

ON

**AXZON-01/HALYCH AND KALUSH
UKRAINE
(PROJECT #31990)**

September 15, 2025

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ABBREVIATIONS AND ACRONYMS

AMR	Annual Monitoring Report
CAO	Compliance Advisor Ombudsman
E&S	Environmental and Social
EIA	Environmental Impact Assessment
ESAP	Environmental and Social Action Plan
ESG	Environmental, Social and Governance
ESIA	Environmental and Social Impact Assessment
ESMS	Environmental and Social Management System
ESRP	Environmental and Social Review Procedures
ESRS	Environmental and Social Review Summary
EUR	Euro
Global G.A.P.	Standards Organization for Good Agricultural Practices
GIIP	Good International Industry Practice
GPS	Global Positioning System
HACCP	Hazard Analysis and Critical Control Points
IFC	International Finance Corporation
ISO	International Organization for Standardization
MAP	Management Action Plan
NGO	Nongovernmental Organization
OHS	Occupational Health and Safety
PSs	Performance Standards
ToRs	Terms of Reference

EXECUTIVE SUMMARY

- i. This Management Report addresses the Compliance Advisor Ombudsman (CAO) investigation regarding a complaint filed in February 2014 related to Axzon (the Company) and its pig production facilities located in Ukraine's Halych and Kalush districts. In 2013, the International Finance Corporation (IFC) made investments in Axzon, comprising a long-term loan of EUR 36 million and an equity investment of EUR 16 million, to facilitate the expansion of Axzon's production capacity by establishing additional pig farms. Axzon prepaid and terminated its loan with IFC in June 2017 after securing alternative debt financing, and IFC's equity position was fully divested through a share sale to existing shareholders in October 2021. As a result, IFC no longer retains any financial exposure to Axzon.
- ii. The objective of the IFC project in Ukraine was to increase Axzon's production capacity by developing new pig farms by re-farming idle or brackish farmland. Additionally, the initiative aimed to enhance food security and promote renewable energy by expanding biogas production. Key development goals included increasing agricultural productivity, improving crop yields via sustainable practices, and supporting local economies through job creation and strengthening the meat production supply chain.
- iii. The Axzon project was categorized as Environmental and Social (E&S) Category B, based on the site-specific, limited, and readily mitigated E&S issues identified under Performance Standards (PSs) 1 through 4, and no indication of impacts related to PSs 5 through 8. The Environmental and Social Review Summary (ESRS) and Environmental and Social Action Plan (ESAP) were disclosed in 2013. IFC's E&S supervision covered the period from 2013 to 2021.
- iv. In February 2014, community members from several villages near Axzon's Ukrainian farms (the complainants), supported by the National Ecological Centre of Ukraine, a nongovernmental organization (NGO), submitted a complaint. Concerns cited included odor, land and water pollution associated with manure management, improper land use and compensation, lack of information disclosure and consultation, impacts on road infrastructure, and environmental effects on natural parks and adjacent areas. CAO deemed the complaint eligible in March 2014.
- v. Subsequently, CAO facilitated a dispute resolution process between 2014 and 2016, followed by a compliance appraisal, which closed issues related to Halych National Nature Park, road impacts, land use and compensation, as well as general matters of stakeholder engagement and grievance mechanisms. An appraisal report was issued in April 2018, confirming an investigation focused on IFC's E&S performance—specifically its review and supervision of the client's E&S Management System (ESMS) and E&S Impact Assessment (ESIA), including aspects such as water extraction, carrying capacity, and manure management, alongside relevant consultation and disclosure activities.
- vi. IFC received CAO's final compliance investigation report in July 2025. The report identified shortcomings in IFC's pre-investment E&S due diligence. Notwithstanding improvements in supervision following 2018, CAO also highlighted shortcomings in IFC's supervision, particularly in oversight of the client's management of manure, waste, wastewater, and potential air, water,

and soil impacts.

- vii. IFC acknowledges the challenges in addressing each of CAO's findings due to the time elapsed since its involvement and its exit in 2021, but nonetheless considers that the due diligence conducted in 2013 conformed to the policies and practices applicable at the time and considered the pertinent E&S risks. The Category B project categorization was consistent with IFC's approach to livestock projects following adoption of the PSs in 2012. The E&S appraisal involved reviews of Axzon's corporate systems, policies, procedures, and site-specific ESIAs, supported by appraisal visits. The risk analysis included considerations of manure management, with ESAP items developed to address gaps. Monitoring systems for water and air quality, hazardous waste disposal, and carcass management (including the introduction of incinerators as recommended by IFC) were assessed and determined adequate for the evaluated risks. Community safety measures, including emergency response planning, were also incorporated into the ESAP.
- viii. IFC identified further requirements in Axzon's corporate-level ESMS, prompting ESAP actions to align country-level plans with IFC's PSs for consistency. Additional ESAP items addressed labor, pollution prevention, human resources, grievance mechanisms, pesticide and fertilizer management, emergency preparedness, and carcass disposal. This investment predated the application of PS 6 and related guidance for livestock projects. However, since 2020, all livestock operations require an international certification, and currently Axzon holds a Global G.A.P certification.
- ix. During supervision (2013–2021), IFC held four in-person engagements with the client, three of which focused on Ukrainian operations; site visits were paused in 2020 owing to the COVID-19 pandemic. Subsequent to each visit, IFC provided recommendations for follow-up and Axzon submitted Annual Monitoring Reports (AMRs) throughout supervision. IFC acknowledges limited formal documentation for its early 2015–2017 reviews, though correspondence confirms ongoing engagement on key topics such as access to information, public participation, and odor management. CAO recognized subsequent improvements in AMR reviews, documentation, and overall supervision.
- x. Axzon developed a manure management system aligned with Good International Industry Practice (GIIP) and introduced and enhanced a biogas plant, reducing odors and improving energy efficiency. Groundwater protection measures included a water testing program, with environmental authorities reporting no non-compliance. Annual soil testing was carried out according to Danish and European standards. Air quality was monitored quarterly, and dust and noise monitoring expanded, with local sanitary services' cooperation. Hazardous waste management was aligned with Global G.A.P. standards and carcass disposal was eventually handled through incineration, following IFC recommendations. Operations in Ukraine adhered to bio-security protocols and were certified for Hazard Analysis and Critical Control Points (HACCP) and international standard ISO 220001.
- xi. Road transport and traffic safety were actively managed. Axzon collaborated with local communities and implemented a zero-tolerance unsafe driving policy, monitored vehicles with GPS for speed and route adherence, and built driver competencies through frequent training.

- xii. Axzon’s stakeholder engagement advanced over time, and while initial efforts were deemed limited, Environmental Impact Assessment (EIA) documentation was permanently available online. With IFC’s supervision commencing in 2014, capacity building and communication with communities improved through site visits, workshops, and virtual meetings.
- xiii. CAO’s report produced one project-level and one systemic-level recommendation. In preparing its response, IFC engaged with CAO as well as with complainants and their NGO representatives, and described efforts made to implement both of CAO’s recommendations.
- xiv. For addressing the project-level recommendation, IFC sought to re-engage with Axzon through a new Advisory Services program as suggested, although the company respectfully declined, citing their current sufficient internal practices and systems in place. Although verification of current conditions is not feasible, IFC believes that Axzon’s progress in E&S policies and practices were evident during IFC’s investment tenure (2013–2021) and that Axzon continues to advance with respect to adhering to E&S standards, as demonstrated in its 2024 environmental, social, and governance (ESG) Report and ongoing Global G.A.P. certification.
- xv. Finally, IFC acted on CAO’s systemic-level recommendation by revising its E&S Review Procedures (ESRP) and internal guidance, enhancing due diligence and supervision protocols for corporate loan investments, considering local risk assessment and management of stakeholder grievances. IFC values CAO’s contributions to institutional learning and accountability, and affirms its commitment to continual improvement and constructive collaboration to strengthen E&S outcomes.

I. INTRODUCTION

1. This Management Report responds to the Compliance Advisor Ombudsman (CAO) investigation of a complaint received in February 2014 from community members in the Halych and Kalush districts of Ukraine: Axzon-01/Halych and Kalush. The Management Report is organized into seven sections: (i) Section I is this Introduction; (ii) Section II outlines the project; (iii) Section III summarizes the complaint and CAO process; (iv) Section IV outlines IFC Management's response to CAO's compliance investigation findings and recommendations; (v) Section V discusses the consultation efforts with the company and complainants; (vi) Section VI explains IFC's approach to the Management Action Plan (MAP); and (vii) Section VII provides the Conclusion. Annex A presents the MAP in table format and Annex B contains communication from Axzon.

II. THE PROJECT

2. Axzon¹ is a vertically integrated agricultural and livestock production company based in Denmark, with operations spanning Poland, Ukraine, and Russia. The company specializes in large-scale pig farming, crop production, biogas energy generation, sustainable manure management, and meat processing.
3. In 2013, Axzon operated over thirty pig farms in northwestern Poland and around ten in western Ukraine, alongside a slaughterhouse and meat processing facility in Poland and a smaller specialty slaughterhouse in Denmark. Additionally, Axzon managed eight biogas plants in Poland and one in Ukraine, as well as approximately 13,000 hectares of farmland in Poland and 10,000 hectares in Ukraine. The company's operations were designed to create synergies between livestock production, crop farming, and renewable energy generation, with a strong focus on sustainability and support for local communities.
4. The investment by the International Finance Corporation (IFC) in 2013 supported the company's operations in the region and expanded its operations across Ukraine. The total project cost was initially estimated at EUR 148 million. IFC committed a long-term loan of EUR 36 million and an equity investment of EUR 16 million.
5. In Ukraine, the IFC project aimed to expand Axzon's production capacity by establishing additional pig farms. By re-farming idle or brackish farmland that had remained unused since the early 1990s, Axzon planned to create a sustainable balance between manure produced by its pig farms and the nutrient needs of the farmland, supporting efficient and environmentally friendly crop production.² Additionally, the project focused on promoting renewable energy through the expansion of biogas production, which generated energy from manure, reducing waste and contributing to clean energy initiatives in Ukraine.

¹ Axzon changed its name to Goodvalley on February 26, 2018. In Ukraine, Axzon/Goodvalley operates through its subsidiary Danosha. As the CAO complaint and report refer to Axzon, this Management Report also uses Axzon throughout for consistency.

² Axzon was a recipient of the Financial Times/IFC Transformational Business Award in 2014 for achieving CO₂ neutrality of its livestock operations in Poland by applying this same operational model. https://aboutus.ft.com/press_release/ft-and-ifc-announce-winners-of-2014-transformational-business-awards

6. The development objectives included increasing agricultural productivity, enhancing crop yields through sustainable practices, and supporting local economies by creating jobs and strengthening the meat production supply chain in Poland and Ukraine. The project sought to enhance food security by providing high-quality pork products to local markets, meeting the growing demand for protein-rich food. These goals aligned with Axzon's commitment to sustainability and local market support.
7. The Axzon project was categorized as Environmental and Social (E&S) Category B, based on the site-specific, limited, and readily mitigated E&S issues identified under Performance Standards (PSs) 1 through 4, and no indication of impacts related to PSs 5 through 8. The Environmental and Social Review Summary (ESRS) and Environmental and Social Action Plan (ESAP) were disclosed in 2013. IFC's E&S supervision covered the period from 2013 to 2021.
8. In June 2017, Axzon prepaid and terminated its loan from IFC after securing alternative debt financing. IFC's equity investment in Axzon, originally made in 2013, was fully divested in October 2021, through a share sale to existing shareholders.
9. IFC no longer has any exposure to Axzon.

III. CAO COMPLAINT

10. In February 2014, community members from several villages near Axzon's farms in Ukraine (the complainants), supported by the National Ecological Centre of Ukraine, a nongovernmental organization (NGO),³ submitted a complaint to CAO. The complaint highlighted concerns regarding odors, land and water pollution (due to the project's use of manure), improper land use and compensation, lack of information disclosure and consultation, impacts on road infrastructure, and environmental impacts on natural parks and other areas. CAO deemed the complaint eligible in March 2014.
11. During the CAO assessment process, both the complainants and the company agreed to participate in a voluntary dispute resolution process to address the issues raised. Before signing a mediation agreement, representatives from three communities successfully resolved their concerns directly with the company, without the need for further CAO mediation. The remaining parties agreed to pursue three separate, parallel mediation processes: (i) a dispute involving a single large landowner; (ii) communities near the Luka farm (Kalush district); and (iii) communities near the Lany and Delievo farms (Halych district).
12. The dispute with the single landowner was resolved through mediation in 2014. In June and July 2016, representatives from the communities involved in the remaining two mediation processes formally withdrew from mediation. Consequently, in March 2017, CAO concluded the dispute resolution process. According to the CAO Operational Guidelines in effect at the time, the case automatically transitioned to CAO's compliance process.

³ As noted in the CAO report, the National Ecological Centre of Ukraine split into two organizations in 2017. The Centre for Environmental Initiatives (Ecoaction) continued to support the complainants, and is the NGO referenced in Section V on consultation.

13. During the compliance appraisal, CAO closed complaint issues related to Halych National Nature Park, road-related impacts, land use and associated compensation, and stakeholder engagement and grievance mechanisms. These topics were not included in CAO's subsequent investigation. In April 2018, CAO released its appraisal report, confirming the scope of the investigation concerning IFC's E&S performance in relation to: (i) IFC's review and supervision of the client's Environmental and Social Management System (ESMS), including measures to ensure procedures were in place to test for and mitigate environmental pollutants; and (ii) IFC's review of the Environmental and Social Impact Assessment (ESIA) documentation, including water extraction, carrying capacity, and manure management system, as well as associated consultation and disclosure, where relevant.
14. IFC received CAO's final compliance investigation report in July 2025. CAO found shortcomings in IFC's pre-investment E&S due diligence. While acknowledging that IFC's supervision improved after 2018, CAO also highlighted IFC deficiencies in supervision, particularly related to the client's management of manure, waste, wastewater, and potential impacts on air, water, and soil. CAO made one project-level recommendation and one systemic-level recommendation.

IV. MANAGEMENT RESPONSE

15. IFC welcomes the CAO report and the opportunity to respond to the findings and recommendations. Nonetheless, it acknowledges limitations faced in preparing this response. Over the 11 years since the original complaint, IFC experienced staff turnover of key project team members as well as the formal end of the client relationship and closure of the IFC project following IFC's exit in 2021. Given constraints in the loss of valuable institutional memory and limitations in archival documents, IFC's response to the CAO report is grounded in the available written information concerning its involvement and outcomes during both the due diligence and supervision phases of the Axzon investment, up to the point of IFC's exit.

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 Due Diligence

16. IFC considers that the due diligence review conducted for Axzon in 2013 followed the policies and practices in place at that time and considered the E&S risks involved. The project's Category B classification reflected IFC's approach to livestock projects following adoption of the IFC PSs in 2012.

17. The E&S appraisal included a review of Axzon's corporate management systems and local operations. The IFC E&S team visited Axzon's headquarters and selected sites in Poland and Ukraine. To evaluate potential risks and impacts in Ukraine, the IFC team visited farms (including the Lany and Delievo farms), a biogas plant, and a slaughterhouse. The resulting ESRS reflected IFC's key findings and determined that PSs 1 through 4 were relevant for this project.
18. At the time of the IFC E&S appraisal, the Lany and Luka farms were already established sites ("brownfield"), while Delievo was mostly undeveloped ("greenfield"). IFC policy required a PS-compliant ESIA for the greenfield farm, while local Environmental Impact Assessment (EIA) studies were conducted for the brownfield farms.
19. During the appraisal, a review of pollution-related risks and impacts was completed, based on information from the site visits and the farms' EIA. Manure handling was of particular concern, and an analysis of the systems in place was conducted, including the project's manure management plan to manage the risks related to soil, water, and air pollution, with relevant ESAP actions identified to address shortfalls.
20. IFC reviewed the company's water and air monitoring systems, along with hazardous waste management and disposal, which were determined to be sufficient in relation to assessed risks. IFC identified improvements for carcass management, including the recommendation to introduce incinerators on the farms. These actions were subsequently implemented by Axzon.
21. IFC also assessed related community health and safety risks. Manure management systems aimed at minimizing odor and biosecurity measures at the pig farms reduced disease risk for local residents. ESAP items were developed to further enhance community safety, including emergency response plans.

ESMS and ESAP

22. IFC identified gaps in the client's corporate-level ESMS and developed ESAP items to address them. These ESAP items required Axzon to align its country-level plans, policies, and procedures with IFC's PSs for consistency across the company.
23. IFC also observed inconsistencies regarding roles and responsibilities of environmental and occupational health and safety (OHS) officers at the country level. To address this and promote a uniform approach across all Axzon's operations, IFC requested that it clearly articulate these roles by developing Terms of Reference (ToRs) at the corporate level. IFC acknowledges that the ESAP items related to the ToRs could have included more detailed and explicit linkage to PS compliance requirements.
24. The ESAP included additional actions related to labor and pollution prevention and abatement, covering human resources policies, stakeholder grievance mechanisms, pesticide and fertilizer use, medicine management, manure and waste management and disposal, fertilizer balancing, emergency preparedness and response, and carcass management and disposal.

25. This 2013 investment predates the standard application of PS6 and its subsequent guidance note for livestock projects at IFC. Since February 2020, all livestock operations are required to have Global G.A.P. for Livestock or Global Smart Livestock Practices certification or verification.

Disclosure and Stakeholder Engagement

26. IFC noted that Axzon disclosed public documents online, in compliance with national legal disclosure requirements at the time. IFC also advised the company on improving its disclosure practices, such as posting documents on farm bulletin boards. Ukrainian law was subsequently updated in 2013 to further strengthen public disclosure processes.⁴
27. As of 2025, IFC cannot confirm with certainty that the disclosure documents were available on IFC's external portal in 2013. The disclosure portal has undergone several major updates since then, and some data from more than ten years ago is no longer retrievable. This situation illustrates the difficulty in responding to a CAO case when significant time has passed, particularly in the context of evolving disclosure practices and technological updates over the past decade.

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). 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).

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 [Good International Industry Practice (GIIP)], and with its responsibility under the PS Overview (para. 5) to comply with applicable national law.

28. During the supervision phase for the Axzon project, four in-person client engagements were conducted, with three visits focusing on operations in Ukraine. IFC conducted site inspections of farms in Ukraine in 2015, 2018 (including the Luka, Lany, and Delievo farms), and 2019. After each visit, IFC provided the client with recommended follow-up actions. Site visits were paused in 2020 due to the COVID-19 pandemic. In 2021, IFC concluded its involvement with Axzon based on financial considerations and pre-agreed contractual obligations, formally ending supervision activities.
29. Beyond site visits, IFC's supervision included document review and correspondence with the client. IFC requested supplementary documentation and updates on permits, plans, test results, farm operations data and grievance logs, which the company provided. Details concerning issues

⁴ In 2013, Ukraine strengthened its transparency laws by expanding public information access, streamlining procedures, requiring proactive disclosure, and aligning its standards with international agreements such as the Aarhus Convention and European Union requirements.

raised in complaints and addressed during IFC's supervision are presented in the following sections.

Monitoring Reports

30. IFC received Annual Monitoring Reports (AMRs) from Axzon from 2015 to 2020. IFC acknowledges that there was limited formal documentation recording IFC's review during the early period of 2015-2017, though correspondence with the client shows ongoing engagement on topics like access to information, public participation in land selection, and odor issues. The lack of comprehensive records makes it difficult to fully track IFC's supervision over time.
31. IFC appreciates CAO's recognition that IFC's AMR reviews and related documentation subsequently improved, as did supervision practices, including timely IFC review and feedback to the client. Following AMR reviews in 2018, 2019, and 2020, IFC followed up on several issues related to E&S compliance and management practices, including community grievances. For example, in 2018, IFC requested access to Axzon's EIAs and specific plans, inquired about community consultation, and sought information on nitrate vulnerable zones near farms. The client provided additional details on all matters, including responses provided to state inspectors' review of EIAs and resolution of non-compliance issues. Also, in the review of later AMRs, IFC identified ongoing community grievances, suggested additional staff training to manage grievances and lower the risks of future issues, and enhanced stakeholder engagement capacity, as detailed below.

Client Capacity

32. The company's structure included E&S risk management reporting directly to the Chief Executive Officer, with professional teams monitoring compliance with national laws and international standards. Five in-house social specialists managed stakeholder engagement, while an Environmental Protection Manager had oversight of a team of specialists for each farm. An OHS Manager reported quarterly to an OHS committee, which supervised OHS staff at each facility, overseen by senior management. There were also dedicated managers for Life and Fire Safety and for Security. A well-structured training program was in place for all departments.
33. Beginning in 2018, the company achieved Global G.A.P. certification for pig and crop farms in Ukraine, indicating adherence to a high operational and environmental standard for responsible farming practices.

Manure, Wastewater Management, and Pollution

34. The supervision records available indicated that IFC had regular engagements with the client to address manure management and potential impacts on air, water and soil. Early in the investment, Axzon improved its manure handling procedures, including introducing a manure management system aligned with IFC's Environmental, Health and Safety Guidelines, and using agricultural machinery to minimize odor and community disturbance.
35. The company's slurry management system included double-membrane storage lagoons with leak sensors, efficient application processes, and biofuel production. Staff conducted regular pipe

inspections, and clear procedures were in place for leaks or accidents. Manure was piped underground to central field points and applied using a drip or sub-surface injection to limit odor and environmental impact. Applications occurred twice a year (spring and late fall), avoiding winter and blackout days set with local councils; communities received three to seven days' notice in advance of the scheduled manure applications. Odor was monitored by local sanitary services, with options for residents to involve independent laboratories or raise concerns through the company's hotline. Modern technology was used to dissipate odor no later than three days after manure application.

36. In 2018, Axzon launched an odor-reduction action plan, including a biogas plant that reduced odors and improved energy efficiency by converting manure into gas for farm use and selling the surplus to the grid. IFC considers that the company implemented practices aligned with Good International Industry Practice (GIIP) for appropriate manure management, aiming to mitigate and control odor nuisance, with opportunities for stakeholders to raise concerns regarding the effectiveness of these practices.
37. To safeguard groundwater, the company implemented a groundwater pollution management program, which complemented the system for manure management. This included a water testing program at farm buildings, wells, rivers/streams, lagoons, and villages near boreholes, with results reviewed by ecologists. The Ministry of Ecology found no instances of non-compliance when it conducted monthly water samplings at boreholes near manure storage facilities. By 2018, all farms had wastewater treatment plants adhering to Global G.A.P. standards. The client's manure and groundwater pollution management programs were effective in meeting local regulations.
38. Soil was tested annually for chemical residues before and after manure application, which followed Danish and European nitrogen standards. Manure samples were analyzed twice yearly by a local center, and an independent laboratory also monitored soil conditions. Any compliance issues were addressed through corrective actions, such as wastewater adjustments or sewer upgrades.
39. Air quality was monitored quarterly within the farm's sanitary protection zones, with point source monitoring increasing over the years. In 2015, the company expanded dust and noise testing to the sanitary protection zone and residential areas, with support of the local sanitary service.
40. Regarding waste management, hazardous waste was categorized and collected by certified companies, and any outdated chemicals returned to certified companies for disposal, in accordance with Global G.A.P. standards. Axzon also introduced incinerators to dispose of carcasses, as per IFC recommendation during appraisal, and following the preparation of a local EIA and public hearing in local villages. Facilities met Global G.A.P. standards for hygienic, traceable, and safe disposal procedures for carcasses to mitigate disease risks and environmental impacts. The company's operations in Ukraine applied a bio-security protocol and were certified for Hazard Analysis and Critical Control Points (HACCP) and International Organization for Standardization (ISO) 220001. The actions undertaken over the years during IFC's involvement in the project are indicative of a steady evolution of Axzon's waste management practices to minimize impacts and reduce risks of disease transmission, as demonstrated by the certifications achieved.

Traffic Management

41. IFC engaged with Axzon on road transport and traffic management. The company collaborated with local communities to address traffic issues, established a zero-tolerance policy for unsafe driving, and provided regular road-safety training for employees. Vehicles were equipped with monitoring based on Global Position Systems (GPS) to control speed and routes, while villagers were informed about hotline numbers to report violations. IFC considers that effective road transport and traffic management measures were implemented. In addition, Axzon's Social Fund supported road maintenance projects based on communities' priorities and promoted joint maintenance projects with local authorities, encouraging other companies to join similar efforts.

Stakeholder Engagement

42. Beginning in 2014, IFC reported improvements in Axzon's stakeholder engagement activities, as no formal policy was in place, prior to IFC's involvement. These changes included public discussions of Social Fund applications, village events, and implementation of collaborative projects. Axzon also recognized that the CAO mediation process facilitated improvements in the accessibility and operation of the Social Fund, the structure of the engagement program, and modes of communication with stakeholders.
43. In February 2019, IFC held a workshop with its Ukrainian clients, including Axzon, focusing on wastewater, air emissions, OHS, community health and safety, stakeholder engagement, and community consultation. Agribusiness clients, including Axzon, highlighted stakeholder engagement as a key challenge and requested further training. In November 2019, IFC hosted a follow-up workshop where Axzon shared updates to its stakeholder engagement, such as improved stakeholder identification and grievance response, community participation in decision-making, and newly appointed liaison officers in villages.
44. Between November 2019 and March 2020, IFC reviewed two versions of Axzon's Stakeholder Engagement Plan and issued recommendations for further improvement. IFC's feedback focused on location-specific actions and contact information and pointed out the need for further refinement in stakeholder identification and impact analysis, requesting continued follow-up in these areas.
45. Although Axzon's initial stakeholder engagement had limitations, communities were always able to access EIA information on Axzon's website. Once IFC began project supervision in 2014, the company's stakeholder engagement practices steadily improved, through ongoing oversight, including site visits, workshops, and regular virtual communications, which supported the development of Axzon's capacity and enhanced its communication with communities. These improvements addressed issues related to earlier practices, lowered the risk of harm, and led to improved stakeholder engagement outcomes over time.

IFC Response to CAO Recommendations

46. CAO's report included one project-level recommendation and one systemic recommendation. IFC has carefully assessed both recommendations and discussed these with CAO. IFC's response is summarized in the MAP included in Annex A.

Project-level Recommendation

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.

47. While communication with Axzon (now operating as Goodvalley) has been limited since 2021, IFC reached out to its former client in the course of preparing a response to the CAO investigation findings and recommendations, sharing the CAO report and inviting the company's feedback.
48. In line with CAO's recommendation, IFC explored the possibility of renewed engagement with Goodvalley, including offering Advisory Services to address issues raised in the complaint. The company formally responded that, given its progress and the systems it now has in place, it does not believe further assistance from IFC is necessary and respectfully declined CAO's proposed recommendation.

Systemic-level Recommendation

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.*

49. IFC is committed to continuous learning and improvement in E&S risk management and welcomes CAO's contributions to institutional learning and effectiveness. Incorporating lessons from CAO investigations and other independent reviews, and building on project experience, IFC has introduced important enhancements in its appraisal and supervision practices and guidance over the years since the CAO complaint on Axzon was received, including in the most recent update (January 2025) of IFC's Environmental and Social Review Procedures (ESRP).
50. In line with CAO's systemic recommendation in the Axzon case, IFC guidance to staff now refers more specifically to E&S due diligence and supervision of corporate finance projects, including consideration of local impact and risk assessment and management as well as grievance management at the project level. Most recently, IFC has reviewed and enhanced the ESRP tipsheets that support IFC E&S Specialists to successfully implement the procedures, incorporating specific guidance on assessing and managing site-specific E&S impacts at the asset level in corporate loan investments and on taking more systematic action to address concerns from communities during project due diligence and supervision. These documents are updated on an ongoing basis to reflect E&S practice. As part of the recent update, IFC also reviewed and updated the AMR templates and the E&S questionnaires, incorporating the same guidance as was prepared in response to CAO's recommendation.

V. CONSULTATIONS WITH COMPLAINANTS AND THE COMPANY

51. The CAO Policy provides for IFC to consult with complainants and the client in preparing a MAP. This section describes IFC's efforts to consult with the complainants and Axzon, along with engagement with CAO regarding the MAP.

Consultation with Complainants

52. Following receipt of CAO's investigation report and the complainants' contact information, IFC reached out to the NGOs supporting the complainants to initiate engagement and to share contextual information. IFC clarified that Axzon is no longer an IFC client and that IFC has no current involvement with the project. As the current company (Goodvalley) declined IFC's offer of advisory services, no additional project-level actions are anticipated. IFC welcomed reflections on lessons learned and invited the NGOs to share further insights at their convenience, including after the conclusion of this case.
53. Recognizing the NGOs' longstanding relationship with the complainants throughout the CAO process, it was agreed that the NGOs would communicate these updates to the local communities and inform IFC if the complainants wished to engage directly during preparation of the MAP, consistent with the CAO Policy. In a letter to IFC Management, the NGO representatives confirmed the complainants' interest in a virtual consultation as part of the MAP preparation and offered additional suggestions related to IFC's Sustainability Framework, as well as proposals for IFC and the World Bank Group to consider programs with Ukrainian public and private sector entities.
54. IFC reiterated its commitment to open and respectful dialogue during the MAP preparation and convened a subsequent meeting, with professional simultaneous interpretation, bringing IFC together with complainants from communities near the company's farms and their NGO representatives. IFC appreciated the opportunity to hear directly from the complainants, to describe its supervision efforts up to IFC's exit in 2021, and to outline recent steps taken in response to CAO's project-level and systemic recommendations. IFC emphasized its willingness to continue listening and engaging with the communities and their representatives.
55. Community members shared their frustration with the length of the process and the limited outcomes to date. They acknowledged IFC's efforts to listen, while expressing disappointment about the absence of project-level actions, and noted their understanding that IFC's exit affects the feasibility of including former client actions in the MAP. IFC acknowledged these concerns and expressed readiness to continue engagement on the broader topics raised by the NGOs—including elements of IFC's E&S policies and World Bank Group activities in Ukraine—that are outside the scope of the Axzon MAP process.

Consultation with the Former Client

56. While IFC has not had exposure to Axzon since 2021, the IFC team contacted the current company as part of efforts to respond to the CAO investigation report.

57. In the company's communication to IFC (see Annex B), it noted the challenges of assessing shortcomings by IFC and Axzon related to complaints that were initiated more than ten years ago. It clarified its position regarding allegations about Axzon's business conduct, which has been operating under the name Goodvalley since 2018.
58. The company emphasized its compliance with both local and international regulations regarding manure management and pork industry standards. It stated that it routinely measures and reports air pollution and manure content, manages manure application through underground pipes, and operates crematoriums in the three farms within the legally required 500-meter sanitary zones for animal remains. Wastewater is treated and regularly analyzed to meet legal requirements. In addition to upholding these operational standards, Goodvalley has implemented grievance mechanisms, including a public whistleblower platform, to promote transparency.
59. Given the progress made and systems now in place, Goodvalley management did not believe that further assistance from IFC Advisory Services was needed and therefore declined the proposed recommendation from CAO.

Engagement with CAO

60. IFC actively engaged with CAO throughout the MAP preparation process. IFC updated CAO on its efforts and rationale for proposed actions, and shared a written draft MAP prior to a formal engagement with CAO. CAO expressed appreciation for IFC's consideration of its recommendations, particularly IFC's efforts to reach out to the current company, despite not having a current formal client relationship. CAO also welcomed IFC's proposal to update relevant internal guidance and tipsheets. IFC engaged with CAO to understand and implement this systemic-level recommendation, and shared the updated tipsheets with CAO before finalizing the MAP. CAO recognized that these updates substantially address its previous comments and suggestions introducing clearer criteria for IFC E&S staff to focus on asset-level assessment during due diligence and supervision, emphasizing facility risk levels, and ESAP implementation, while addressing community concerns and providing guidance on AMR formats. IFC values CAO's constructive and collegial engagement on the proposed MAP actions and the broader lessons learned, with the shared objective of strengthening IFC's E&S practices and outcomes.

VI. MANAGEMENT ACTION PLAN (MAP)

61. IFC implemented CAO's project-level recommendation. The IFC team approached the former client and offered Advisory Services. The current company reviewed the CAO report and provided a formal response to IFC, including its management's decision to decline re-engagement with IFC on these matters.
62. IFC also implemented CAO's systemic-level recommendation. In updating the ESRP and associated guidance, IFC addressed issues raised in CAO's recommendation related to due diligence and supervision of corporate loan investments, including assessment of local risks and impacts and consideration of grievances raised through the project-level grievance mechanism.
63. The MAP presented in Annex A reflects the actions and limitations described above.

VII. CONCLUSION

64. IFC welcomes this opportunity to respond to the CAO investigation report, share its perspective on the Axzon project, and reflect on lessons learned to enhance IFC's E&S risk management. IFC also acknowledges challenges associated with reviewing documentation of activities that took place over a lengthy time period. Shortcomings in formal documentation and monitoring records during early supervision complicated reconstruction of a detailed timeline of activities. Although supplementary correspondence and notes demonstrate ongoing engagement with the company, formally filed records were insufficiently robust. IFC has since implemented enhancements to internal E&S documentation.
65. IFC considers that the pre-investment due diligence approach was conducted in accordance with policy and practice at the time. IFC reviewed corporate policies and systems, as well as a broad sample of operations. Categorization was consistent with institutional practice in place following adoption of the PSs in 2012. Due diligence identified the applicability of PS 1 through 4, which was common for livestock projects at that time. While IFC addressed gaps identified during due diligence through action items in the ESAP, it acknowledges that some action items could have been articulated with greater detail and precision.
66. IFC appreciates CAO's recognition of improvements in IFC's monitoring and documentation since 2018. Strengthened supervision and enhanced feedback to the client corresponded to important improvements. Over the course of IFC's investment, the company made significant progress on many E&S issues relevant to agricultural operations, including manure management, emissions control, pollution prevention, and stakeholder engagement practices, as well as the accessibility and effectiveness of grievance mechanisms.
67. Although Axzon is no longer an IFC client, currently available information indicates the company has sustained commitment to environmental, social and governance (ESG) principles and made continued progress in E&S practices. The company's 2024 ESG Report describes the integration of this commitment from the highest levels and downward, with the Board of Directors setting out the overall strategy and direction, based on both its ESG policy and a double materiality assessment, which explicitly considers impacts (actual or potential) on people and the environment, as well as financial materiality. The company's commitment to meeting high E&S standards is further evidenced through its successful Global G.A.P. certification in 2018, which it has retained to date.
68. IFC acknowledges challenges faced by communities, especially during the initial years of IFC's investment, and recognizes the contributions of the CAO process in highlighting community concerns and offering a mediation process to attempt to resolve community complaints. The company also expressed gratitude for CAO's diligence and efforts during the dispute resolution process.
69. Axzon prepaid its loan to IFC in 2017, and IFC divested its equity in Axzon in 2021. During the period from IFC's investment in 2013 until its exit in 2021, the company made substantial advancements in its E&S policies and practices. Though it is not able to verify present conditions, IFC believes that the company's commitment to and execution of E&S standards has continued to

improve. IFC does not believe there is material adverse effect linked to the project and related to any potential IFC non-compliance that would meet the threshold of Harm as defined in the CAO Policy.⁵

70. As recommended by CAO, IFC approached its former client to explore engagement, including development and provision of an Advisory Services program. Company representatives outlined their position and declined further engagement. Given this response, and the past progress and current status of E&S issues, IFC is not proposing any additional project-level actions in the MAP.
71. At the systemic level, IFC has developed guidance on topics that address CAO's systemic recommendations, which includes local impact and risk assessments and management, and project-level grievance mechanism management. Current policies and procedures address the legacy issues identified by CAO in the context of its investigation associated with due diligence and supervision of corporate loan investments.

⁵ “Any 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.” CAO Policy, Glossary. <https://www.cao-ombudsman.org/sites/default/files/documents/CAO%20Policy/ifc-miga-independent-accountability-mechanism-cao-policy.pdf>

ANNEX A. MANAGEMENT ACTION PLAN

Project-Level Recommendation and Actions		
CAO Recommendation	IFC Action	Deliverable
Recommendation 1: <i>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.</i>	IFC approached its former client to explore the potential utilization of Advisory Services to respond to the issues raised by communities and identified in CAO's investigation. The company declined further engagement with IFC. No further project-level actions are proposed.	Completed July 2025
Systemic-Level Recommendations and Actions		
CAO Recommendation	IFC Action	Deliverable
Recommendation 2: <i>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:</i> a. <i>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.</i> b. <i>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 :</i> b. <i>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.</i>	IFC updated the Environmental and Social Review Procedures (ESRP) and associated guidance and clarifications provided to E&S Specialists, consistent with CAO's systemic-level recommendation.	Completed ESRP: January 2025 Guidance: Updated tipsheets May-August 2025

ANNEX B. AXZON (GOODVALLEY) COMMUNICATION WITH IFC



GOODVALLEY A/S
VESTERBROGADE 4A
1620 COPENHAGEN V
DENMARK

INFO@GOODVALLEY.COM
GOODVALLEY.COM

Dear Sirs,

We have received the CAO Compliance Investigation Report prepared by you and we would like to take the opportunity to provide our comments before it is published.

Firstly, we note that the report has been underway for more than 10 years which in itself is a challenge when assessing whether there has been any wrongdoing from the side of IFC and Axzon (hereafter referred to as Goodvalley, which is the Group's name since 2018).

Secondly the report is a critical assessment of IFC's performance and not Goodvalley's related to Goodvalley's investments in Ukraine which were approved in 2013 and carried out during the following years. However, due to the fact that the report numerous times mentions Goodvalley's *alleged* negative impacts on people and the environment and that the report will be published, we find it necessary to clarify our position on the allegations about our business conduct in the report.

We note and recall from the complaint process that the majority of the issues raised by the complainants were dismissed and that part of the issues which are mentioned in the CAO report were dismissed in the same report.

The CAO report mentions the following topics:

- Manure management
- Carcass transport and management
- Wastewater management

With regard to manure management Goodvalley complies with all local and national regulations as well as the international good practices of the pork industry in terms manure storage and pre-treatment, volumes per hectare, application method and communication to the community regarding the time of application. Air pollution levels and manure content are measured regularly and inspected by authorities. Manure is pumped to the fields directly through underground slurry pipes. The grievance mechanism introduced by IFC is still in place and a whistleblower platform has been added with encrypted access for all including the public through the Goodvalley website.

With regard to transport and management of dead animals contrary to the situation in 2018 Goodvalley has now established crematories on all farms except for two new farms acquired in late 2021, where we are still awaiting building permissions for the crematoria. Each of the crematoria in operation has the legal 500 meter sanitary zone around them.

Regarding wastewater treatment Goodvalley's wastewater is treated in a sewage treatment plant at each farm and wastewater is analyzed on a regular basis to test limit values of harmful substances in accordance with legislation.

Given the above described progress and systems in place we do not think that further assistance from IFC Advisory Services is needed and we therefore politely decline the proposed recommendation from CAO.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Kristian Brokop', with a stylized flourish extending to the right.

Kristian Brokop
Group CEO, Goodvalley A/S

Disclaimer

The IFC Management Response is provided in response to the Investigation Report of the Office of the Compliance Advisor Ombudsman (CAO) relating to complaints of alleged non-compliance by IFC with its E&S Policies in a project supported by IFC finance or investment.

CAO administers IFC's accountability mechanism in order to address complaints by people affected by IFC supported projects. As noted in paragraph 9 of the IFC/MIGA Independent Accountability Mechanism (CAO) Policy, CAO has no authority with respect to judicial processes. CAO is not a judicial or legal enforcement mechanism, nor is CAO a substitute for courts or regulatory processes, and CAO's analyses, conclusions, and reports are not intended or designed to be used in judicial or regulatory proceedings or for purposes of attributing legal fault or liability.

Nothing contained in CAO's Investigation Report or in the IFC Management Response (1) creates any legal duty, (2) asserts or waives any legal position, (3) determines any legal responsibility, liability or wrongdoing, (4) constitutes an acknowledgment or acceptance of any factual circumstance or evidence of any mistake or wrongdoing, or (5) constitutes any waiver of any of IFC's rights, privileges or immunities under IFC Articles of Agreement, international conventions or any other applicable law. IFC expressly reserves all rights.

While reasonable efforts have been made to determine that the information contained in the reports is accurate, no representation or warranty is given as to the accuracy or completeness of such information. In preparing the Management Response, IFC does not intend to create, accept or assume any legal obligation or duty, or to identify or accept any allegation of breach of any legal obligation or duty. No part of CAO's Investigation Report or IFC's Management Response may be used or referred to in any judicial, arbitral, regulatory or other process without IFC's express written consent.