Dear Executive Directors,

We are writing with regard to [project number 47227, the proposed loan to Maziwa / Pearl Dairy](#).

We would like to raise concerns about several aspects of the proposed recipient company's practices that must be considered before any vote on the project.

Firstly, the nature of contracts and pricing within Pearl Dairy's supply chain are a cause for concern. Local contacts where Pearl Dairy sources its milk have raised complaints about the contract dynamics that unfairly advantage Pearl Dairy as the buyer. Milk prices are volatile in Uganda. In the past, where prices have dropped very low, Pearl Dairy has refused to buy milk from its suppliers, and they have had nowhere else to sell their milk, and have struggled for their livelihoods. This has been reported in national news, for example this article: https://www.monitor.co.ug/uganda/business/prosper/pearl-dairy-dilemma-farmers-stare-at-a-bleak-future-1884214. At the opposite end, where prices have boomed, contracted farmers are unable to benefit from the price increase, because their contracts with Pearl Dairy fix the price at a certain point. Given these dynamics, the dairy farmers themselves bear the precarious and volatile situation, while Pearl Dairy is insulated or benefiting. This is not socially sustainable or equitable. If IFC is serious about the World Bank Group's mandate to address inequality and share prosperity, and truly benefit local livelihoods, it must investigate and address these issues in Pearl Dairy's supply chain and contract management. It is also unclear how the planned construction of additional milk collection centers will impact the existing supply chain dynamics for the dairy farmers themselves, and this should be explicitly investigated and addressed before the loan is considered.

It is notable that in preparation of the loan, the project disclosure states that IFC spoke only to Pearl Dairy's "Pearl Dairy's Chief Executive Officer (CEO), industrial directors, Human Resources (HR) director, General Manager - Factory operations, and Chief Transformation Officer", and did not speak to any of the farmers in Pearl Dairy's supply chains, to gain awareness of supply chain issues.

Other market dynamics call into question the shared economic benefits that this investment will bring to Uganda and Kenya. Earlier this year it was reported that "A major exit by farmers from dairy and the resulting reduction in quantities could put such establishments [as Pearl Dairy] at risk by straining already inadequate supplies" (See https://www.monitor.co.ug/uganda/news/national/a-farmers-dilemma-has-the-govt-worried-4094284). It is unclear how this investment in Pearl Dairy to expand its processing capacity in Uganda, construct more milk collection centers, and acquire a packing plant in Kenya, will address these dynamics. If the sustainability of dairy farming is not addressed, Pearl Dairy's supply will be at risk, and the proposed investments may not be used to full capacity or provide the intended return on investment. The IFC should consider how it can work with the dairy providers, for example dairy associations or cooperatives, to improve the sustainability of the dairy supply chain first and foremost.

Secondly, there are issues with employment practices and labour issues. It is notable that Pearl Dairy does not yet have a "Supplier Code and Supply Chain management system consistent with PS2 requirements". Without this the IFC cannot be confident that there are not significant issues in the supply chain workforce including forced labour. Combined with the fact that approximately 88% of the Pearl Dairy workforce are stated to be third party workers engaged through agencies, we have significant concerns that the IFC cannot say whether there are violations of workers' rights in Pearl Dairy's workforce and supply chain. The company does not yet have an HR policy in Uganda where the majority of its workforce are based. The company also is noted as not complying with PS2 in relation to commitments on freedom of association or procedures to prohibit child or forced labour. Taken with the fact that the IFC did not consult with any workers during its review of the proposed investment, only company management, means that the reality of worker's rights and working conditions cannot be confidently understood at this point. Overall, the lack of guarantee of freedom of association, lack of HR policy in Uganda, and reliance on agency workers, suggests a working environment where labour rights and human rights are poorly protected, and where exploitation may be easily occurring. This is particularly concerning if the agency workers that Pearl Dairy relies upon, are not guaranteed the same employment rights as direct employees. Unfortunately it is not clear from the project disclosures whether this is the case.

In particular we ask that IFC provide an answer for why Pearl Dairy relies so heavily on an agency workforce, and that IFC get assurance that labour rights are respected within Pearl Dairy's operations and supply chains, before the loan is considered.

At present it is disclosed that Maziwa/Pearl Dairy does not have "a formal register of stakeholder groups or a formal stakeholder grievance mechanism in place" and that stakeholder engagement is conducted informally at present. Once again it is highly concerning that the IFC has not consulted external stakeholders in preparation of this project, only conversations with management. The current disclosures recognise that IFC's PS1 is not currently being met. How can IFC be comfortable that the current proposed project is not having significant negative impacts to any impacted communities or stakeholders, when the consultation has not happened in preparation for the loan, and the company also does not have stakeholder engagement policies and processes?

Animal welfare and diversity of cattle breeds must also be better understood and addressed. It is unclear from project disclosures whether Pearl Dairy's work to improve milk yields includes changing the mix of breeds that are raised, or the type of farming operations that are practised by farmers. It is important to conserve breed diversity and ensure that breeds are locally adapted to climate and environment. We also understand that at present the majority of suppliers for Pearl Dairy will be extensively grazed dairy farms. It is unfortunately not clear in current project disclosures whether there are plans to change productivity in Pearl Dairy's supply chain by changing species or confinement practices, i.e. move to more intensive production. There are clear negative impacts to animal welfare, environment and local communities in more intensive production systems, due to animal health issues (such as high levels of lameness and mastitis) that arise from confinement and selective breeding for high productivity; methane emissions, manure and air pollution from particulates; use of antibiotics that is required when many animals are confined together; and air and noise pollution for local communities. IFC should not support such a loan. Instead, this project presents an opportunity to support sustainable, holistic extensive grazing and the development of socially and environmentally sustainable dairy supply chains. At present however it is unclear which trajectory is planned for Pearl Dairy and the development of the Ugandan and Kenyan dairy sectors. We request clarification on this matter.

Biodiversity and habitat conversion is also a significant concern and calls into question the current classification of the loan as Category B, given habitat conversion and biodiversity loss are not "largely reversible and readily addressed through existing mitigation measures and good international industry practices". Notably, according to project disclosures, Pearl Dairy has only recently introduced limited supply chain tracing and verification for 55% of its current supply chain, and this is "expected to be completed within the next 12 months". At the same time there are "no verification/certification to remove potential conversion risks from the trader supply chain" which currently is 45% of supply and planned to reduce to 25% of supply within 5 years. Given the global nature and biodiversity crisis, and the specific importance of the rich biodiversity of Uganda, the IFC should not finance any project that is not highly committed to protecting and restoring natural habitats. This is especially since the adoption of the Kunming-Montreal Global Biodiversity Framework, which was adopted last year and which supports the achievement of the Sustainable Development Goals, to which the IFC is committed. The Global Biodiversity Framework target 1 is to “Ensure that all areas are under participatory, integrated and biodiversity inclusive spatial planning and/or effective management processes addressing land- and sea-use change, to bring the loss of areas of high biodiversity importance, including ecosystems of high ecological integrity, close to zero by 2030, while respecting the rights of indigenous peoples and local communities” (see [https://www.cbd.int/gbf/targets/](https://www.cbd.int/gbf/targets/)). Other targets are also relevant for consideration.

The project disclosures state that “The project has committed to not sourcing from farms where conversion of natural/critical habitat occurs” but there are no assurances or explanations of how this will be guaranteed, or how “the project is already engaging farmers to understand and manage supply chain risks”. It is unclear how the IFC can verify these claims from Pearl Dairy given that its due diligence was limited to speaking to company management and not to any suppliers, as noted above.

It is not only the risk of habitat conversion that relates to biodiversity issues with this proposed loan. There is also the question of how many cows are being grazed on farmers' land, and how Pearl Dairy is supporting sustainability in terms of overgrazing and impacts to soil health and biodiversity in grazing lands.

Additionally, the project claims to “contribute to food security by increasing the volume of dairy products sold to consumers”. It is unclear whether this is going to benefit local consumers in Uganda where milk consumption is very low, or whether the increased volume of dairy products sold to consumers is going to happen in export markets. To address issues of nutrition and food security in Uganda, the IFC must in fact support production for local consumption, rather than production for export as far afield as India – or otherwise explain how this loan is intended to benefit local food security.

Finally, but by no means least, there are no indications of how this project is aligned with IFC's commitment to the Paris Agreement and aligning financial flows to ensure warming is limited to 1.5C above pre-industrial levels. There is no mention of climate change and greenhouse emissions as a key environmental risk for the project, even though this should be considered for all IFC loans given its commitment to act on climate change; and specifically when looking at the livestock sector, which is known to be the most significant contributor of greenhouse gas emissions within the food and agriculture sector.

In conclusion, we have significant concerns about the company's supply chain and workforce management, and environmental and animal welfare impacts of the proposed project. These should be addressed before the loan can be considered, and unless concerns can be addressed, we object to the loan being financed.

Thank you for your consideration. We hope to begin a dialogue and discuss these issues further.

Best wishes,

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