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Via electronic mail ediker-yilmaz@ifc.org

Re: Questions on IFC [project 47498](#) / RSE FC Engro¹

Dear Esra:

We, the undersigned organizations, are writing with concerns regarding IFC's recent EUR 75M investment in Royal FrieslandCampina (FC) Engro. Broadly, these encompass questions relating to:

- The Dutch dairy giant's environmental and social impacts;
- IFC's potential failure to mitigate these impacts as required by the Performance Standards;
- The implications of these impacts for the goals of the Paris Agreement and SDGs;
- The approval of this loan according to RSE procedures post the WHO's official declaration of the end of the COVID-19 pandemic².

GHG emissions, obligations under PS3, and Paris alignment

Considering that milk and cheese are among the food ingredients with the highest GHG footprint,³ per kilo of product, we are concerned that producing more of it will exacerbate climate change, rather than mitigate it. A report by Milieudefensie estimates that Friesland Campina emitted 17.4 Mton CO₂-eq in 2019. The report also highlights that the company aims to keep growing 1.5% a year, and that this will lead to annual emissions of 18.5 Mton CO₂-eq by 2030.⁴ How does IFC assess this as being aligned with the Paris Agreement Climate goals?

Biodiversity

The cattle sector is one of the largest drivers of deforestation worldwide, either because cattle need large pastures to feed, or because the production of feed for cattle housed indoors requires large areas of land, with the feed often being grown in monocultures involving reliance on synthetic pesticides and fertilizers. How does IFC see its financing as addressing these issues?

Nitrogen Emissions

¹ <https://disclosures.ifc.org/project-detail/SII/47498/rse-fc-engro>

² <https://news.un.org/en/story/2023/05/1136367>

³ Our world in data, <https://ourworldindata.org/grapher/ghg-per-kg-pooore>

⁴ Milieudefensie 2021, De onzichtbare vervuilers van de vlees- en zuivelindustrie. <https://milieudefensie.nl/actueel/zuivelindustrie>

In light of the ongoing nitrogen crisis in the Netherlands, it's also worth noting that Friesland Campina is a large contributor to these emissions and has not taken the necessary steps to drastically reduce its emissions. On the contrary, it has explored opportunities to increase production and thus emissions.^{5 6} We are concerned it will export its polluting business model to Pakistan and other countries, now that expansion options in the Netherlands have become limited. Does IFC share these concerns? If not, why not?

Animal Welfare

We welcome any improvements on animal welfare, but the IFC disclosure page does not provide any details on this. Will the company be required to comply with an animal welfare certification scheme by a certain date? If so, which and when? How will this scheme actually improve the lives of animals, considering that under more industrialized circumstances, animal welfare does not necessarily improve and in fact often deteriorates? How will the farms tackle the problems often found in dairy production such as high levels of lameness and mastitis, poorly designed and/or maintained housing leading to sores, wounds and injuries, tethering of the cows for long periods (damaging for their welfare), and the possible use of high yielding Holstein-Friesian cows as these cows are unable to cope properly with high temperatures? Also, will IFC attempt to have its client follow the OECD Guidelines for Multinational Enterprises on Responsible Business Conduct on Animal Welfare?⁷

Corporate concentration/Lack of Additionality

We would also like to understand the development rationale for providing finance to a multinational conglomerate, which last year was ranked as the world's 8th largest dairy producer.⁸ Friesland Campina, the holding company of Engro Foods, had a net profit of EUR 292 million in 2022, and thus does not seem to need public development funds to do its business.⁹ In addition, Engro Corporation, which owns 40% of Engro Foods¹⁰, is Pakistan's largest diversified conglomerate.¹¹ How and why does it merit IFC support?

Instead, small-scale farmers could potentially benefit from development financing, especially

⁵ Pointer, 20 mei 2022. Zuivelfabriek FrieslandCampina Veghel 'kent lange voorgeschiedenis van overtredingen'. Nu overschrijding van sulfaatnorm. <https://pointer.kro-ncrv.nl/zuivelfabriek-frieslandcampina-veghel-kent-lange-voorgeschiedenis-van-overtredingen>

⁶ NPO Radio 1, 9 juni 2022. Zuivelfirma FrieslandCampina profiteerde van afschaffen vergunningplicht. <https://www.nporadio1.nl/nieuws/onderzoek/d76b1e6d-93ac-436c-bf5d-a9a63470586d/zuivelfirma-frieslandcampina-profiteerde-van-afschaffen-vergunningplicht>

⁷ These state that: "An animal experiences good welfare if the animal is healthy, comfortable, well nourished, safe, is not suffering from unpleasant states such as pain, fear and distress, and is able to express behaviors that are important for its physical and mental state. Good animal welfare requires disease prevention and appropriate veterinary care, shelter, management and nutrition, a stimulating and safe environment, humane handling and humane slaughter or killing". See 21 July 2023. Joint CSO letter on the inclusion of animal welfare in the new OECD Guidelines. <https://drive.google.com/file/d/1xzIqLMTGUccq22POKrX6PhMP5Fmry572/view?usp=sharing>

⁸ Rabobank, 2022. Global Dairy Top 20.

https://research.rabobank.com/far/en/documents/502210_Rabobank_Global-Dairy-Top-20-2022_Ledman_Aug2022.pdf

⁹ <https://jaarverslag.frieslandcampina.com/nl/2022/>

¹⁰ <https://www.engro.com/history/>

¹¹ <https://www.weforum.org/organizations/engro>

after last year's dramatic floods. As a report by the FAO on dairy in Pakistan notes, "the sale of milk from rural areas to urban centers allows the transfer of funds from wealthier urban centers to poorer agriculturally based communities."¹² How does financing Friesland Campina contribute to this?

COVID19 response¹³

We also ask why this loan was granted under the COVID19 relief process. On May 5th, the WHO declared that COVID19 was no longer a public health emergency. The agreement with Friesland was signed after that.¹⁴ And while the loan was presented to the board before the end of the pandemic, why was it submitted as emergency relief, as according to FAO data, milk production in Pakistan (close to 60M tons from cattle, 40M tons from buffalo, per [FAO](#)) did not suffer during the pandemic? Instead, it continued to increase at pre-pandemic rates.

Disclosure Issues, Environmental and Social Action Plan Updates

The SII states the loan will support FrieslandCampina working capital requirements in emerging markets, including Pakistan. What are the other emerging markets? This information is essential for assessing E&S risks.

Per the IFC Fast Track COVID19 Facility Disclosure Policy, "public disclosure will occur post-facto via an update to existing client disclosure materials"¹⁵ rather than through a new Environmental and Social Review Summary when there are no new E&S risks. Did IFC find no new E&S risks seven years after the earlier (project 38150) ESRS? This is surprising given acceleration of climate change impacts, such as last year's floods— were these considered?

The E&S Categorization Rationale section on the SII page for the project RSE FC Engro (#47498) states that the "IFC E&S team and company's senior management reviewed [and updated] the ESAP items related to previous investments #38150". The updated ESAP items 23¹⁶ and 24¹⁷ raise several questions regarding the authority of the Manager for EHS

¹² <https://www.fao.org/dairy-production-products/production/en/>

¹³ WBG, 2020. <https://documents1.worldbank.org/curated/en/166621584551201643/pdf/Report-to-the-Board-of-Directors-on-a-Proposed-Investment-in-IFC-Fast-Track-Covid-19-Facility-World-Region.pdf>

¹⁴ UN News, 5 may 2023. WHO chief declares end to COVID-19 as a global health emergency. <https://news.un.org/en/story/2023/05/1136367>

¹⁵ [Report to the Board of Directors on a Proposed Investment in IFC Fast Track COVID-19 Facility](#), p. 6.

¹⁶ Anagram Equity ESAP item 23: "FC Engro shall strengthen its EHS capacity and procedure for managing E&S matters of its business operations by: (i) creating a dedicated Manager EHS Compliance position at Corporate/Head Office level within existing organogram of the company and develop its job description with well-defined roles and responsibilities, qualification and experience; (ii) appoint a qualified, experienced professional for this position per the requirements set out in job description document for managing the overall EHS & Social compliances and reporting requirements for all the operational facilities, their ancillaries and future expansions, and (iii) develop and implement internal E&S reporting procedures for robust coordination between the Corporate/Head Office and operational facilities based E&S team on IFC's monitoring and reporting requirements."

¹⁷ Anagram Equity ESAP item 24: "FC Engro shall update the annual E&S and OHS training plan including: (i) trainings on IFC's Performance Standards, WBG EHS Guidelines and the reporting requirements for the technical, admin and EHS staff based at Corporate/Head Office level and all the

Compliance and the beneficiaries and content of the trainings to be provided. How will IFC follow up to ensure that these actions are meaningful and timely?

Despite this review and update, the ESAP still lacks sufficient attention to supply chain elements of IFC's Performance Standards, specifically PS 6. While there are programs carried out by FC Engro such as its Agricultural Services program, these do not fully address impacts on biodiversity and the environment. How are these and other supply chain impacts being addressed in line with PS6¹⁸?

Further, given the finding that that Engro has reasonable commercial leverage over supplier operations and that the new investment is to address supply chain disruptions caused by COVID-19, we would like to understand:

1. What is the current distribution of suppliers—if it has changed since 2016¹⁹—and how many of those suppliers have formalized agreements with FC Engro?
2. Though not explicit in the ESAP, is there any current monitoring of PS6 Supply Chain requirements for FC Engro's dairy suppliers? How is that being implemented? Will it be implemented under project 47498? Or if not, what is being done to fulfill these requirements, and how is this being verified?
3. What is the justification for the ESAP to not include developing a Supplier Code of Conduct²⁰ (for those in formalized agreements) in compliance with PS 6 or any sort of monitoring or assessment of environmental impacts of suppliers?

Given these questions and concerns, an overarching question for IFC is how this

operational facilities, and (ii) specific training modules in line with “WBG Environmental, Health, and Safety Guidelines for Dairy Processing” as a regular element of the annual training calendar”

¹⁸ PS 6 para. 30 provides: “systems and verification practices will (i) identify where the supply is coming from and the habitat type of this area; (ii) provide for an ongoing review of the client's primary supply chains; (iii) limit procurement to those suppliers that can demonstrate that they are not contributing to significant conversion of natural and/or critical habitats (this may be demonstrated by delivery of certified product, or progress towards verification or certification under a credible scheme in certain commodities and/or locations); and (iv) where possible, require actions to shift the client's primary supply chain over time to suppliers that can demonstrate that they are not significantly adversely impacting these areas.”

¹⁹ The ESRS from 2016 states: “In addition to raw milk from Engro's own operation (Nara Farm), the remaining 95% of Engro's total raw milk requirements are sourced from the following groups: 43% from farmers (of which 11% from direct farmers (owning typically 2-4 animals) and progressive farmers (5-10 animals), 14% from commercial dairy farmers (11-30 animals), and 13% from large farms (more than 30 animals)); 26% from village milk collection points; 10% key farms (250-500 animals); 8% from dodhis (middleman/trader); and 5% from strategic milk collection agents” ([Anagram Equity ESRS](#)) — percentages which do not add up to either 43% for farmers or 95% external suppliers.

²⁰ IFC Guidance PS1 GN2 states “A contractual arrangement with a supplier, on the other hand, is an example of a situation where the client may have contractual, financial, and, therefore, operational leverage enabling a level of control to be exerted that should directly influence how the supplier performs with respect to related impacts and their avoidance, prevention, minimization, mitigation, or compensation,” and in practice this leverage had influenced supplier performance through the development, implementation, and updating of Supplier Codes of Conduct—an element included in all dairy procurement projects in the past 3 fiscal years aside from RSE projects, which have not been sufficiently updated.

support aligns with the goals of the Paris Climate Agreement and the Global Biodiversity Framework, in line with broader World Bank Group commitments.

We would also welcome a meeting with your office to further discuss these concerns.

Yours sincerely,

Alliance for Climate Justice and Clean Energy (ACJCE) - Pakistan

Stop Financing Factory Farming Coalition - international

Cc:

Louis Philippe Mousseau, Global E&S Sector Lead Agribusiness and Forestry

David Evans, Livestock Industry Specialist.