

CEE

**bankwatch
network**

BLACK EARTH

**Agribusiness in Ukraine and the
marginalisation of rural communities**

September 2015

Authors list:

Natalia Kolomiets, National Ecological Centre of Ukraine
Fidanka Bacheva McGrath, CEE Bankwatch Network

Acknowledgements:

Huub Scheele, Both ENDS
Kadri Green, Estonian Green Movement
Aris Adlers, Latvian Green Movement

Editing:

David Hoffman, CEE Bankwatch Network

Design & layout:

Sven Haertig-Tokarz, CEE Bankwatch Network



This publication has been produced with the financial assistance of the European Union and the International Visegrad Fund. The content of this publication is the sole responsibility of CEE Bankwatch Network and can under no circumstances be regarded as reflecting the position of the European Union.

Bankwatch is also grateful to the following donors for their ongoing support of our work: Charles Stewart Mott Foundation, European Climate Foundation, Sigrid Rausing Trust.



Contents

1. Executive summary	4
2. Introduction	5
2.1 The move towards large-scale farming in Ukrainian agribusiness – factors facilitating the trend.....	6
2.2 The model promoted by the IFIs: EBRD, IFC, EIB	7
2.3. MHP: the Vinnytsia poultry complex and IFI investments	8
3. Fact-finding mission	9
3.1 Background and description	10
3.2 Detailed findings	11
• Labour	
• Odour	
• Manure management	
• Access to water	
• Health risks	
• Traffic	
• Access to information	
• Communication with the company	
• Land expansion and pressure on communities	
4. Conclusions and recommendations.....	13

Executive summary

This report presents the findings of an international fact-finding mission (FFM) to the Vinnytsia poultry complex in southwest Ukraine. The mission was conducted 24–29 May 2015, with the goal of assessing the environmental and social impacts of Europe's largest poultry farm¹. The team consisted of six civil society organizations: the National Ecological Center of Ukraine (NECU), CEE Bankwatch Network, Both Ends (the Netherlands), SOMO (the Netherlands), the Latvian Green Movement and the Estonian Green Movement.

The Vinnytsia complex is the biggest of four broiler farms of Mironivski Hliboproduct (MHP), the company that “holds an indisputable leading position in Ukraine's meat market”². MHP is also a long-term client of several public financial institutions, including the International Finance Corporation (IFC) of the World Bank, the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB) and the Dutch export credit agency Atradius. The company has received more than half a billion dollars in loans from these institutions, in order to “develop MHP's business across all segments from cultivation of grain to production of chicken, from distribution to bioenergy projects. As a result MHP has built two poultry complexes to provide Ukrainians as well as citizens of around 60 countries of the world with affordable and quality products and more than 30,000 jobs in Ukraine”.³ The loans included conditions for MHP to improve its environmental performance and to enhance its social and development impacts.

According to a review of the limited information available in the public domain, the company and its lenders claim that MHP's projects bring numerous benefits and have only limited negative impacts on local communities. However during the mission local stakeholders reported unresolved problems and inadequate measures to mitigate adverse impacts and questioned the compliance of MHP investments with Ukrainian and IFI standards. Therefore the FFM aimed to understand the local and national contexts and to gather first-hand information about the impacts of the Vinnytsia poultry complex.

To this end, the FFM team conducted interviews with local civil society representatives, authorities and residents in three villages and the town of Ladyzhyn. In Kiev meetings were also held with the Ministry of Agriculture, the Ministry of Environment and Natural

1 MHP web site [last visited on July 29th, 2015], <http://www.mhp.com.ua/en/operations/op-vinnitskaja-ptitsefabrika-oao-mkhp>

2 MHP web site [last visited on July 29th, 2015], <http://www.mhp.com.ua/en/about/strategy>

3 MHP comments provided by Anastasiya Sobotyuk, 26 Aug 2015, via e-mail to CEE Bankwatch and SOMO.

Resources and representatives of the IFC and the EBRD. In addition to the individual and group interviews with more than 100 people and meetings with officials, the FFM research relied on publicly available information disclosed on the web sites of MHP, the EBRD, the IFC and the EIB.

FFM participants requested meetings with MHP representatives in Ladyzhyn and Kiev, since first-hand information from the company is valuable to the research aims of the mission. However the company declined the requests, stating that it is “*doing business in Ukraine with accordance to the legislation and best world practices*”. Several requests from NECU to MHP for detailed environmental and social assessment documentation were not fulfilled.

The draft of the FFM report was shared with the company for comments and MHP replied “*for the last 13 years of cooperation with these institutions MHP always complied with the requirements set in Action Plans agreed and confirmed by the Boards of the institutions*”.⁴ The company’s replies have been incorporated into the final publication.

The FFM collected accounts about various environmental and social impacts related to the Vinnytsia poultry complex. The key findings are detailed in chapter three, and in summary these include:

- odour and community health risks linked to the management of manure and other wastes from poultry production;
- increased traffic and road safety risks;
- lack of information and consultation with communities, resulting in mistrust and fears about various risks (e.g. to community and livestock health); and
- pressure on communities to lease their land for the expansion of the complex.

There were ambiguous accounts about labour conditions and mixed satisfaction with regards to expectations about communal infrastructure development, for example of local roads and centralised water supply for households. The FFM did however note positive opinions that local communities benefit from increased employment and the availability of free company buses in the area that virtually serve as public transport between the villages and the town of Ladyzhyn.

Chapter two of the report is an introduction which 1. outlines the factors that facilitated the development of Ukraine’s agribusiness sector towards large-scale farms; 2. discusses the business model promoted by the IFIs (the EBRD, the IFC and the EIB); and 3. presents the MHP company and the Vinnytsia poultry complex. Chapter three

4 Sobotyuk, *ibid.*

provides a more detailed description of the mission and the research process and elaborates its findings. Chapter four concludes and makes recommendations to MHP and the IFIs.

This FFM report is complemented by an analysis of MHP's corporate strategy, published simultaneously by SOMO.⁵



5 http://www.somo.nl/publications-en/Publication_4228?set_language=en

Introduction

2.1 The development of Ukrainian agribusiness towards large-scale farms – factors that facilitated the trend

Ukraine is known as “*the breadbasket of Europe*” because of the *chernozem*, the thirty million hectares of extremely fertile and high-yielding black soil. This incredible national wealth is also the reason for the significant interest from private agribusiness companies and international investors, who nowadays consider Ukraine a strategic partner in addressing global food security.

Ukraine's signing of the Deep and Comprehensive Free Trade Area as part of the Association Agreement with the EU in 2014, the USD 17 billion loan package from the IMF and the fact that agriculture was the only sector of the economy to register growth last year⁶ have further focused the attention of both investors and the Ukrainian government on speeding up sectoral reforms. The armed conflict in the east of the country and the resulting economic turmoil are also part of what the World Bank calls “*a big chance*”⁷ for pushing deregulation and opening the country's vast land resources to the agribusiness industry.

Following Ukraine's undeclared war with Russia and decisive move to the ‘West’, some commentators⁸ have stressed that the structural adjustments led by the new government (“*the most reform-minded government that Ukraine has known*”⁹) and the IFIs will inevitably lead to more large-scale land acquisitions by agroholdings and the further corporatisation of the agricultural sector¹⁰.

But the industrialisation of Ukrainian agriculture has been underway for a decade. Following massive declines in agricultural productivity after the break up of the Soviet Union and the protracted transition from the *kolkhoz* system of collective ownership to

6 According to the State Statistics Service of Ukraine, quoted in the EBRD's 2014 annual report on the Food Security Initiative and in EBRD's President Chakrabarti's speech “*The way forward for Ukraine*” URL [last visited on July 20th, 2015]: <http://www.ebrd.com/news/2015/speech-transcript-the-way-forward-for-ukraine.html>

7 Arsenault, C., 27 Febr. 2015, Reuters, URL [last visited on July 20th, 2015]: <http://www.reuters.com/article/2015/02/27/us-food-conflict-development-idUSKBN0LV1PY20150227>

8 Oakland institute, 2014, *Walking on the West Side. The World Bank and the IMF in the Ukraine Conflict*, URL [last visited on July 20th, 2015]: http://www.oaklandinstitute.org/sites/oaklandinstitute.org/files/OurBiz_Brief_Ukraine.pdf

9 EBRD Press Release, 9 June 2015, *EBRD President Praises Ukraine's Reform*, URL [last visited on July 20th, 2015]: <http://www.ebrd.com/news/2015/ebrd-president-praises-ukraines-reforms.html>

10 Oakland Institute, 2014, *op. cit.*

private ownership, Ukraine's agricultural potential was underutilised at the beginning of the twenty-first century– the country was not self-sufficient and had virtually no agricultural exports¹¹. The global food crisis that intensified in 2008 provided an opportunity for the commercialisation and industrialisation of agriculture, especially of meat production.

In 2008 Ukraine experienced a serious deficit of pork and beef on the market, in spite of significant increases in imports following Ukraine's accession to the WTO¹². The crisis was also the moment when two major shifts were observed. First, internal meat consumption shifted to cheaper chicken due to the high prices of red meats caused by the deficit¹³. Second, meat production increased steadily through the industrialisation of livestock rearing, notably in the poultry and pork segments of the market, while the volumes produced by households remained largely unchanged¹⁴.

Consequently meat production notably expanded and progressively became more vertically integrated i.e. companies controlled all elements of the value chain from grain and fodder production to retailing processed meats. Poultry production emerged as the most advanced segment of the sector and in fact “*the most concentrated subsector of Ukraine's economy*”¹⁵ dominated by two large players, one of which is MHP with a 60 per cent market share of the industrially-produced chicken in the country in 2014¹⁶.

As a result of the industrialisation of agricultural production in Ukraine during this time, a dozen of big private agroholdings succeeded in gaining control of about a fifth of the country's most fertile lands¹⁷. Due to a moratorium on selling land until 2016, these industrial agribusinesses do not own the land but instead leased it from small private landowners, for approximately 50 euros per hectare per year (in 2014¹⁸) for up to 49 years. With the moratorium expected to be lifted because of pressures from investors, land concentration in the hands of a small number of foreign corporations and Ukrainian oligarchs, who own these agroholdings, is likely to intensify.

11 Interview with EBRD staff via teleconference between EBRD Kiev office and London HQs, 29 May 2015.

12 Tarashevych, A., 2008, *GAIN report: Ukraine. Livestock and Products. Calm Market before the Storm: Insufficient Production and Insignificant Imports*, US Department of Agriculture, Foreign Agricultural Service, URL [last visited on July 20, 2015]: <http://apps.fas.usda.gov/gainfiles/200809/146295712.pdf>

13 *Ibid.*

14 Yarmak, A., Svyatkivska, E., Prikhodko, D., 2014, *Ukraine. Meat Sector Review*, FAO, Rome, URL [last visited on July 20, 2015]: <http://www.fao.org/3/a-i3532e.pdf>

15 *Ibid.*

16 MHP web site [last visited on July 29, 2015], <http://www.mhp.com.ua/en/operations/poultry>

17 Oakland Institute, also quoted by Reuters *supra*

18 OSW Commentary, 7 Febr. 2014, *The transformation of agriculture in Ukraine: From collective farms to agroholdings*, URL [last visited on July 29, 2015], <http://www.osw.waw.pl/en/publikacje/osw-commentary/2014-02-07/transformation-agriculture-ukraine-collective-farms-to>

Agribusiness exports currently provide much-needed foreign reserves and help balance trade. Noteworthy are the recent shifts in the export geography of Ukrainian food products after the signing of the trade agreement with the EU and the imposed ban on food imports from Ukraine's traditional large trade partner Russia. For example, dairy exports to Russia have declined by 55 per cent and meat by 61 per cent in 2015¹⁹. As a result of new market access requirements, safety and quality regulations are being rolled out in Ukraine. Again, large agribusiness holdings, who have the economies of scale and much superior capabilities to access finance, are the ones who can afford to modernise and implement measures to improve not only the quantity but also the quality of their products.

2.2 The model promoted by the IFIs

IFIs like the EBRD, the World Bank and the EIB are actively investing in Ukraine's agribusiness sector. They are also active in policy and institutional reform by providing advice and technical support, and through the establishment and facilitation of various platforms for dialogue between industry and Ukrainian decision-makers.

The IFIs have praised the reform spirit of the new Ukrainian government and the decisive moves it has taken to deregulate the economy in order to attract investment. Since mid-2014 all inspection apart from taxation has been suspended in Ukraine, so agribusiness together with all other industries in Ukraine are spared checks by environmental, labour, health and safety and other authorities. The IFC's senior country officer for Ukraine, Elena Voloshina, said that this has saved the industry millions – for example, in 2014 agribusinesses did not have to undergo annual technical checks of agricultural machinery²⁰.

Although the investments from IFIs benefit mostly large agribusiness, the public banks work together with local commercial banks to provide access to finance for smaller farms. For example they facilitate the training of Ukrainian banks to set up financial products, providing technical trainings to farmers and by developing insurance schemes and other financial instruments. Financial products they develop include the so-called 'crop receipts' instrument, whereby future crop harvests are used as collateral for credit provided by local banks and multinational suppliers of farm inputs such as Bayer and Syngenta.

19 EBRD, 2015, Annual Report 2014. Private Sector in Food Security Initiative, URL [last checked on 20 July 2015]: <http://www.ebrd.com/news/2015/the-ebrd-private-sector-for-food-security-initiative-its-all-about-quality.html>

20 Interview with Elena Voloshina, IFC, 28 May 2015, Kiev.

EBRD

The EBRD is the largest single investor in Ukraine with a total cumulative commitment of EUR 11 billion across 345 projects, and a current portfolio of more than EUR 5 billion, with EUR 1.2 billion invested in 2014 alone, of which EUR 250 million went to agribusiness²¹. The EBRD reports that its agribusiness clients employ more than 200,000 people in Ukraine and contribute more than USD 10 billion in exports annual²².

The EBRD's 2011–2014 country strategy for Ukraine aimed to address a number of economic challenges, among them the unrealised potential of the agricultural sector, with its low productivity, limited access to finance and uncertain land ownership and land use rights²³. The period of the Ukrainian strategy coincided with the beginning of the EBRD's Private Sector in Food Security Initiative, in which Ukraine has starred as the main protagonist.

As part of this initiative, the EBRD was instrumental in driving deregulation and institutionalising the agribusiness lobby²⁴, for example through the establishment and coordination of private–public working groups on grain and milk production. These private–public platforms were supposed to increase transparency and sectoral reforms, but in fact they greatly facilitated the expansionist strategies of the industry and international investors. The experience from Ukraine is now being transferred to other EBRD countries, such as Egypt and Serbia, who initiated similar initiatives in the grain and the meat and dairy sectors, respectively²⁵. The EBRD Food Security Initiative has also introduced Ukrainian food producers to new markets, both in the EU and globally, for instance in Arab countries which now face acute food security challenges.

Since the beginning of the political upheaval and the war in the east of the country, the EBRD has sought to increase its investments and role in reforming the country's economy and institutions. The EBRD has stepped up its engagement in Ukraine's agribusiness sector, both through loans and policy dialogue initiatives. At the end of

21 EBRD Press Release, 15 July 2015, *EBRD provides syndicated loan to major Ukrainian sunflower oil producer*, URL [last viewed on 20 July 2015]: <http://www.ebrd.com/news/2015/ebrd-provides-syndicated-loan-to-major-ukrainian-sunflower-oil-producer-.html>

22 EBRD Press Release, 9 Oct. 2014, *EBRD and private sector ready to invest in Ukraine's agribusiness*, URL [last viewed on 20 July 2015]: <http://www.ebrd.com/news/2014/ebrd-and-private-sector-ready-to-invest-in-ukraines-agribusiness.html>

23 EBRD, 2011, *Country Strategy For Ukraine 2011–2014*, URL: <http://www.ebrd.com/where-we-are/ukraine/overview.html>

24 Oakland Institute, 2014, *The Corporate Takeover of Ukrainian Agriculture*, Country Fact Sheet, URL [last viewed on 20 July 2015] http://www.oaklandinstitute.org/sites/oaklandinstitute.org/files/Brief_CorporateTakeoverofUkraine_0.pdf

25 EBRD, 7 Febr. 2014, *The EBRD harvests results on food security*, URL [last viewed on 20 July 2015]: <http://www.ebrd.com/news/2014/the-ebrd-harvests-results-on-food-security.html>

last year the EBRD announced its Private Sector Action Plan²⁶ and EUR 2.5 billion in private sector investment over the next three years. The EBRD conditioned these investments on regulatory reforms, “*a concrete work plan to remove obstacles to sector-wide agribusiness investments*”²⁷ related to taxation, import and export rules and cutting red tape.

To this end, the EBRD was instrumental in setting up Ukraine's Business Ombudsman, whose objective is to facilitate the fight against corruption²⁸.

IFC

The IFC has been present in Ukraine since 1993 and has invested a total of USD 3.2 billion in 92 different projects. Agriculture is one of the key sectors for the IFC and one of the few with export potential to provide foreign currency to the country. The IFC has invested over USD 1 billion in Ukraine's agricultural sector²⁹, and the agribusiness sector represents over 40 per cent of the IFC's current investment portfolio in the country³⁰.

In 2012, the World Bank initiated a program to expand agribusiness in Ukraine through the IFC, which sought to reform the investment climate for agribusiness. For example, the IFC pushed for a roadmap for lifting the moratorium on the sale of land in Ukraine³¹ and has set up a comprehensive advisory programme to the Ukrainian government, together with the International Bank for Reconstruction and Development and has no less than 50 staff who participate in various advisory bodies³².

EIB

The EIB operates in Ukraine on the basis of the ‘*external lending mandate*,’ an EU guarantee for projects outside the Union,³³ as well as via the European Neighbourhood

26 EBRD press release, 9 October 2014, *op. cit.*

27 EBRD, 2014 annual rep FSI

28 Ukraine's Business Ombudsman's web site: URL: <https://boi.org.ua/en/>

29 Voloshina, *op. cit.*

30 IFC Press, 24 June 2014, *IFC Invests Up to \$250 Million in Poultry Producer MHP to Fuel Ukraine Agribusiness*, URL: <http://ifcext.ifc.org/ifcext/pressroom/IFCPressRoom.nsf/0/CA1B4445BB36F87085257D0100468E23/>

31 Arsenault, 2015, *op. cit.*

32 Voloshina, *op. cit.*

33 DECISION No 466/2014/EU OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 16 April 2014 granting an EU guarantee to the EIB against losses under financing operations supporting investment projects outside the Union, URL [last viewed on 29 July 2015] <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014D0466&from=EN>

Instrument, through which the bank manages financial measures to support EU foreign policy objectives³⁴. Both allow the bank to support a wide variety of sectors, including agribusiness.

In comparison to the EBRD and the IFC, the EIB is a late-comer to the agribusiness scene in Ukraine. But with the signing of a new trade and association agreements with the EU in 2014, the EIB has a greater impetus to act and support the reforms in its neighbour.

The EIB and Ukraine signed a Declaration of Intent to begin a new initiative and finance projects in the agribusiness sector (including cereals, oil seeds and aquaculture)³⁵. In 2014 the bank provided EUR 135 million in agribusiness loans for two companies, MHP and Astarta.

2.3 MHP

The Ukrainian poultry giant Mironivsky Hliboproduct (MHP) produces approximately 60 per cent of the chickens reared in industrial farms in Ukraine and 35 percent of poultry consumed in the country³⁶. MHP owns the largest poultry farm in Europe in the Vinnytsia region of southwestern Ukraine, where eight million chickens per week, or more than 400 million chickens are slaughtered annually by MHP³⁷. Additionally to chickens, the company rears cattle, pigs and geese for producing a variety of processed meat products like sausage and convenience food products. Still, 50 per cent of meat in these products is chicken.³⁸

As the MHP name and logo suggest, the company was established in 1998 as a grain producing company, and it still grows a variety of grains for fodder. Thanks to its aggressive expansion and supported by loans from the IFC and the EBRD, the company boasts of its position as the biggest meat producer and one of the biggest grain producers in Ukraine, with a land bank of nearly 400 000 hectares in twelve regions of the country.

34 European Neighbourhood Instrument 2014–2020, URL [last viewed on 29 July 2015]: http://eeas.europa.eu/enp/documents/financing-the-enp/index_en.htm

35 EIB Press Release, 5 June 2015, *EU Bank works towards supporting the agri-food sector in the Ukraine*, URL [last viewed on 29 July 2015]: <http://www.eib.org/infocentre/press/releases/all/2015/2015-120-eu-bank-works-towards-supporting-the-agri-food-sector-in-the-ukraine.htm>

36 Sobotyuk, *op.cit.*, note:

37 *Ibid.*

38 MHP web site, <http://www.mhp.com.ua/en/operations/meat-processing>

MHP is a vertically-integrated group of more than twenty companies, which controls the whole cycle from grain and fodder production, through breeding, poultry production and meat processing, to the distribution and sale of its products. As of May 2015, partially due to the devaluation of the Ukrainian hryvnia, MHP was the producer of the cheapest poultry globally and thus viewed by the IFC as a “*strategic partner in addressing the rising global demand for protein.*”³⁹

MHP founder, CEO and majority shareholder Yuriy Kosyuk is the fifth richest Ukrainian with a personal wealth of USD 1.3 billion⁴⁰. He controls MHP through 100 per cent ownership of WTI Trading Limited, which holds more than 60 per cent of MHP shares. Kosyuk appears well connected to the new government, as suggested by his brief appointment to the post of the First Deputy Head of the Presidential Administration in 2014.

Vinnytsia poultry complex

The Vinnytsia poultry complex is situated on the territory of Ladyzhyn and several villages in Vinnytska region. The complex is being developed in two phases, with the first phase completed in 2014 and the second phase – which is expected to double the size of the complex – beginning at the end of 2015 and continuing until 2018. According to MHP's website, in 2014 the complex bred 117 million birds and produced 205 000 tonnes of poultry, with the poultry unit alone hiring 3 680 workers. After the successful completion of the second phase of construction, production of the Vinnytsia farm should reach 44 000 tonnes of poultry and the overall MHP chicken production to 900 000 tonnes⁴¹. Currently the complex includes the following facilities:

- grain storage facilities with a capacity of 2 094 cubic metres;
- fodder production mills;
- a breeder farm and a hatchery;
- 12 rearing zones with 38 broiler houses each and with 54 000 chickens in each house;
- a slaughter house;
- waste treatment facilities and a by-products plant; and

39 Voloshina, 2015, *op. cit.*

40 Forbes, 2015, URL [last checked on 3 Aug 2015]: http://www.forbes.com/fdc/welcome_mjx.shtml

41 MHP presentation, June 2015, MHP one of Ukraine's leading agro-industrial companies, <http://www.mhp.com.ua/library/file/roadshow-june-2015.pdf>

- a utility complex that includes workers' dormitories, apartments and a gym.



As with any large industrial facility, the Vynnytsia complex has considerable impacts on the environment and the local communities. Even though the company has invested considerable resources in acquiring modern and efficient technologies and has obtained a number of certificates for the safety and quality of its operations and products, local people have raised a number of environmental concerns related to odour, waste management and road safety.

Furthermore, as the company is planning an expansion of the Vynnytsia complex, extra land is required from neighbouring villages for the construction of another 12 rearing zones and grain production. As the report on the findings from the FFM to the area in May 2015 elaborates below, the most serious concern raised by locals is the lack of transparency and informed consultation about the project, as well as the intense pressure put on individual owners to lease their land, even if they have indicated that they are not interested and are afraid for their health and livelihoods.

According to media reports, MHP intends to expand its poultry production in the Kaniv region as well, in spite of opposition from six villages. Local communities there have

appealed to regional and national authorities⁴² with little hope that their opinions can carry more weight than MHP's interests.

IFIs investments in MHP operations

Since 2003 MHP has received more than half a billion dollars in loans from the IFC, the EBRD and the EIB. The company and lenders have reported significant results from the investments including:

- improvement of animal welfare and food safety and quality⁴³,
- development of agricultural lands, which are currently inefficient by improving energy and resource efficiency and improving crop production methods⁴⁴;
- support inclusiveness⁴⁵ through support for a network of 2 600 SMEs, a franchise network of small shops selling MHP branded poultry in rural locations often underserved in terms of basic food retail reach⁴⁶;
- employment increases in rural areas⁴⁷ and improvement of occupational health and safety⁴⁸;
- installation of MHP's first biogas plant using floating sludge and chicken manure, that ensured energy savings, reduction of MHP's carbon footprint and the cost of production⁴⁹,
- enhancement of food security and self sufficiency of Ukraine and improved resiliency of the Ukrainian agri-food sector against adverse weather shocks, mainly droughts (climate change adaptation)⁵⁰.
- improved resource efficiency and environmental sustainability of MHP's operations through an EIB financed project for construction

42 DZVIN, 29 May 2015, *На свавілля "Нашої Ряби" Президенту поскаржились голови шести черкаських сіл*, URL: <http://dzvin.org/na-svavillya-nashoji-ryaby-prezydentu-poskarzhylys-holovy-shesty-cherkaskyh-sil/>

43 EBRD PSD, 2010, URL: <http://www.ebrd.com/work-with-us/projects/psd/mhp.html>

44 EBRD PSD, 2013, URL: <http://www.ebrd.com/work-with-us/projects/psd/mhp-farming.html>

45 IFC Summary of Investment Information, 2014, *op. cit.*

46 IFC Summary of Investment Information, 2012, URL: <http://ifcext.ifc.org/ifcext/spiwebsite1.nsf/ProjectDisplay/SII32632>

47 *Ibid.*

48 EBRD PSD, 2010, *op. cit.*

49 EBRD PSD, 2010, *op. cit.*

50 *Ibid.*

of two grain storage facilities, one fodder processing plant and one sunflower crushing plant near Ladyzhyn in Vinnytska region⁵¹.

- improvement of food security by provision of competitively priced chicken, not only in Ukraine, but also in importing countries in Africa, Middle East and Asia⁵².
- demonstration effect by supporting “*a socially responsible and efficient producer with solid track record*”, which will encourage foreign and local investors to invest in Ukraine's economy in crisis times⁵³.

Furthermore, the EBRD reports that the company's operations are consistent with national and EU standards for the environment, occupational health and safety, animal welfare and bio security; labour practices are in line with Ukrainian requirements; and that the company's activities do not adversely impact local communities⁵⁴. The IFC reported in 2012 and 2014 that its proposed investments are “*expected to have limited and site-specific environmental and social impacts and none is expected to be significant*”.

Additionally, until 2014 the IFC claimed that no impacts were expected as per its standards on Land Acquisition and Involuntary Resettlement and on Biodiversity Conservation and Sustainable Management of Living Natural Resources, because “*land acquisition will only be done through willing seller / willing buyer negotiations*” and “*crop production is located on consolidated agricultural areas*”^{55 56}. Yet the Environmental and Social Action Plan (ESAP) for the 2012 loan from the IFC committed MHP to “*Prepare a land procedure for early identification of potential E&S risks and impacts associated with leasing of new land plots*”⁵⁷ in order to achieve compliance with requirements on Assessment and Management of Social and Environmental Risks and Issues.

51 EIB Project Summary Sheet, 2014, URL: <http://www.eib.org/projects/pipeline/2012/20120184.htm>

52 IFC Investment Summary Information, 2012, *op. cit.*

53 IFC Investment Summary Information, 2014, *op. cit.*

54 EBRD PSD, 2010, *op. cit.*

55 IFC Investment Summary Information, 2012, *op. cit.*

56 IFC Environmental and Social Review Summary, 2014, URL: <http://ifcextapps.ifc.org/ifcext/spiwebsite1.nsf/651aeb16abd09c1f8525797d006976ba/eaec4088d700222585257cc10063dbfa?opendocument>

57 IFC, 2012, *Environmental and Social Action Plan. MHP WCF (#32632)*, URL: [http://ifcext.ifc.org/ifcext/spiwebsite1.nsf/0/B1548C84ED6097A985257AA800585CA6/\\$File/ESAP%20final_disclosure_Oct%2022%202012.docx.pdf](http://ifcext.ifc.org/ifcext/spiwebsite1.nsf/0/B1548C84ED6097A985257AA800585CA6/$File/ESAP%20final_disclosure_Oct%2022%202012.docx.pdf)

Fact-finding mission (FFM)

3.1 FFM background and description

Local communities raised concerns about the lack of adequate public consultations and negative impacts at the Vinnytsia poultry farm in 2011 during the start of construction of the first rearing zones. In the summer of 2012 NECU conducted a field visit to the construction area to learn about these problems⁵⁸. At that time the main findings were:

- a lack of adequate Environmental and Social Impact Assessments (ESIA) for the facilities and the absence of a cumulative ESIA for the complex;
- deficiencies in public consultations during the decision-making process;
- unmitigated impacts of construction on local populations including dust, noise, vibration from trucks, limited employment possibilities for the local population; and
- potential failures in labour safety on the construction sites.

As MHP was expecting a second loan from the EBRD⁵⁹, in October 2013 these issues were raised by NECU to the company and the EBRD⁶⁰. The EBRD responded that the company performed according to national legislation⁶¹ and therefore the EBRD loan was approved. Local bloggers continued to report about continuing impacts and concerns^{62,63}.

58 NECU, 2012, *Будівництво та експлуатація комплексу «Вінницький бройлер»*: екологічні та соціальні аспекти, URL [last viewed on 20 July 2015]: http://necu.org.ua/wp-content/uploads/Ladyzyn_Report_URK.pdf

59 EBRD Project Summary Document, URL [last viewed on 20 July 2015]: <http://www.ebrd.com/work-with-us/projects/psd/mhp-farming.html>

60 NECU letter, October 2013, URL [last viewed on 20 July 2015]: <http://bankwatch.org/documents/letter-EBRD-MHP-23Oct2013.pdf>

61 EBRD letter, 22 November 2013.

62 Skakodub, A., 8 Aug. 2013, *Сморід відступив. Блазні залишились*, URL [last viewed on 20 July 2015]: <http://lad.vn.ua/blog/skakodub/smorid-vidstupiv-blazni-zalishilis.html>

In 2014 NECU, Bankwatch and Dutch NGO Both Ends researched and monitored Ukrainian agribusiness projects financed by the World Bank (IFC and IBRD), EBRD and EIB, as well as export credit agencies and those projects involving the use of tax havens. MHP stood out among other agribusiness companies for several reasons:

- the involvement of all three public banks, notably the EIB, as well as of the Dutch export credit agencies;
- MHP's near monopoly on the poultry subsector;
- the expansion plans at the Vinnytsia complex; and
- continued reports by local NGOs about persisting concerns from communities.

Therefore in May 2015 an international team visited Ukraine to carry out field research and meetings with Ukrainian authorities and international lenders. The team was hosted by NECU and composed of representatives from the following groups:

- CEE Bankwatch Network;
- Both ENDS, Netherlands;
- Estonian Green Movement;
- Latvian Green Movement;
- SOMO, Netherlands.

Unfortunately the team was unable to meet with MHP representatives, neither in Kiev nor at the Vinnytsia complex, in spite of repeated requests from NECU, Both ENDS and Bankwatch. Nonetheless the team visited most of the facilities at the Vinnytsia complex, including grain storage, chicken houses, waste disposal sites, water treatment plant and the slaughterhouse, although access to these facilities was not granted. Additionally the team witnessed the air pollution from the coal power plant and visited its ash disposal site, as local communities noted the cumulative impacts of the two main industries on air, soil and underground water quality and as well community health.

The team had the following meetings with over one hundred people during three days in the Ladyzhyn area and two days in Kiev, including meetings with:

- three local activist groups, trade unionists and ex-workers, approximately 10 people;
- Olyanitsa village council and mayor, approximately 20 people;
- Bilousivka village council and mayor, approximately 36 people;

63_National Center for Ecological Control, 5 Febr. 2015, *У керівництва Нашої Ряби в Ладизині слова розходяться з ділом*, URL [last viewed on 20 July 2015]: <http://lad.vn.ua/blog/control/u-kerivnictva-nashoi-ryabi-v-ladizhini-slova-rozhodyatsya-z-dilom.html>

- Ulianivka village council and mayor, approximately 20 people;
- an additional 15 people in villages near the poultry complex facilities;
- the mayor of Ladyzhyn, Mr Viktor Kolomyjtsev, and approximately 30 local authorities, businesses and seven MHP workers;
- the Ukrainian Agriculture Ministry, three experts from departments of animal farming and international cooperation, two experts from the state veterinary service, four representatives of associations of producers;
- the Ukrainian Ministry of Environment and Natural Resources, five experts from departments of environmental expertise, waste management, atmosphere protection, environmental audit ;
- IFC representatives in Kiev, Elena Voloshina and Rafal Golebiowski, and with Alla Tkacheva in Moscow through teleconference;
- EBRD headquarters in London, four experts from the Departments of Agriculture, Environment and Sustainability, Civil Society Organisations Engagement.



3.2 Detailed findings

Labour

MHP's Vinnytsia poultry farm provides jobs to the local and regional population. According to the mayor of Ladyzhyn, the town has around 24 000 inhabitants (including Lukashivka), with Vinnytsia providing 5000 jobs and potentially another 3000 to come after the expansion.

MHP workers live in an area extending 50 to 60 kilometres from Ladyzhyn. . People have limited options to find other jobs as there are just two major employers in the area – MHP and the DTEK thermal power plant. According to information from the company, the salary at the rearing facility is on average UAH 5205 (EUR 210) per month and at the slaughter facility – UAH 5146 (EUR 220) per month. MHP stated “*it is transparent with payment [of] all taxes to authorities [when] 90 per cent of all companies in Ukraine don't even register people at enterprise and pay minimum.*” Additionally the company stated that its workers are entitled to 28 days of annual leave, in line with the Ukrainian labour code, and various forms of support, for example for weddings, funerals and the birth of a child⁶⁴.

In spite of the environmental and social issues reported in this paper, locals are happy about the decreasing levels of unemployment in the villages. According to the Ladyzhyn city council, 20 000 square metres of housing was constructed for employees of the enterprise. Additionally, MHP workers are provided other benefits like free and regular transportation to surrounding villages, canteen food for one hrivnya, and free or reduced price chicken as bonuses to their salary.

In terms of occupational health and safety standards though, an audit conducted for the EBRD before its first loan was approved in 2010 indicated the need to improve such standards. Additionally in its 2012 Overall Environmental and Social Assessment of the EIB financed project, the EIB reported that occupational health and safety standards for the workers were not optimal.

MHP also confirmed information from local people that the company uses prison labour at the Vinnytsia poultry complex and clarified that:

“1) it is MHP's social responsibility project – prisoners are well paid (according to the legislation), they can continue to work at the facility after release (in most cases they are unemployed after term); 2) locals don't want to work in some production departments, but prisoners accept and work and demonstrate great results; 3) we don't replace locals with prisoners, in most cases it is unqualified jobs”.⁶⁵

64 Sobotyuk, *op.cit.*

65 *Ibid.*

Odour

The company provided the following information about odour:

“Smell can be felt during the period of injecting organic mixture into the ground. To reduce discomfort of local inhabitants there is a number of measures which are provided for in a special memo for dealing with the organic mixture based on broiler chicken manure. The content of this Memo is provided to every buyer of the mixture. This has been the must since the beginning of the summer. Regarding the smell generated by the poultry farms, the sanitary protection zone of the teams is complied with and exceeds the one set forth in the law (1,200 m). Insignificant smell can be felt only in case of unfavourable strong wind. Discomfort is short.”⁶⁶

During the May visit, the team observed a foul smell from different sources, including: trucks passing with different loads like birds on their way to the slaughter house; rearing zones where the chickens are housed; and heaps of manure piled in several fields and at the major raw manure deposit site. Villagers complained mainly about the foul smell of manure stored on or applied to the fields, and about wind carrying the smell from the chicken rearing houses.

All of the above mentioned facilities and sources of odour contribute to the bad air quality in the area. Depending on winds, the odour affects not only villages located near the MHP facilities, like Olyanitsa, but also the village of Ulianivka, where the expansion of the complex is expected. This is one reason why villages in the line of the expansion are not willing to lease their land to MHP for the second phase of construction.

Manure management

The standard procedure at MHP for manure management is to collect all manure in open-air storage sites where it remains for several months to mature. After that it is applied to the fields as fertilizer at the appropriate time. The mission saw several heaps of manure piled in the fields, without a clear indication of how they are to be used. Manure had already been applied in the fields surrounding the heaps, so the leftover supplies were simply left there.

66 MHP Chief Ecologist, 26 Aug 2015, *General comments provided to FFM report*, via e-mail to CEE Bankwatch and SOMO



The company provided the following information with regards to manure management:

“Organic mixture based on chicken manure is placed on the fields of MHP's grain production enterprise according to the needs calculated by the agronomic service of the company. [The organic mixture] passed state sanitary and epidemiological expertise; they are approved by the Technical Committee TC 111 “Fertilizers and Pesticides”, Oblderzhrodiuchist State Enterprise and registered by Vinnytsia Research and Production Center for Standardization, Metrology and Certification State Enterprise.”⁶⁷

The company also stated that it sells organic mixture to third parties and that the mixture is accompanied with a protocol of research of physical and chemical indicators of the mixture and a memo about the requirements for the treatment of the product.

The team managed to visit the manure storage site, a facility basically consisting of a concrete floor and side walls of concrete. Neither the floors nor the walls were watertight, and no roof nor rainwater cover above the manure was present, meaning that nutrients could easily seep into the groundwater and methane emissions into the air. The facility was not fenced off and could be accessed by anyone, although a pack of stray dogs living on the premise might prevent people from entering.



The company confirmed that:

“The storage clamps are situated on the fields at the places allowed by the sanitary and epidemiological service before it is the best time to put the mixture in the soil according to the calculations of the agronomists. [...] As for lack of a fence around the manure storage and a roof over it, there are no such requirements in Ukraine to the designed facilities.”⁶⁸

A piece of uncultivated land near a forested bank of a creek, south of the village of Ulianovka was investigated by the mission as it appeared to be used as an illegal dumping ground for raw slurry. The slurry source was confirmed to be the poultry complex as it was mixed with chicken manure and waste. At the same time a MHP truck appeared with the apparent aim of dumping some more sludge. When the driver realized that the mission team was watching him, he drove off, followed by a car chase, which ended at one of the MHP facilities.

The company commented that

“clarified water is used for irrigation and watering, which always undergo physical and chemical as well as bacteriological research before use and accompanied with the relevant protocols. The truth is that the driver of that tank truck filled with the liquid for watering wanted to drive through a narrow one-way country road on legal basis

but he failed to do it as according to him the path was blocked by the vehicles of the public figures. Surely, he turned the truck and discharged water to the storage tanks located within the territory of the manure storage, and by doing so he did not break any law as well. [...] Injection of clarifies liquid to feed the soil is also carried out on legal basis and in accordance with the calculations of an agronomic service on the basis of the composition of soil and liquid itself.”

Access to water

Villages in the region do not have access to a centralised water supply system and rely on wells for drinking water and use around the household. The mission heard reports that in Olyanitsa, households have observed a drop in the water levels in their wells and thus had to dig these deeper. People expressed concerns that it might be due to operations at the poultry complex and fear pollution from pathogens in the manure.

The company provided the following information with regards to water use: *“Water is consumed by the poultry farm and its branches from a surface source (Southern Buh) and the economic activities of the company do not anyhow impact the level of water in wells of local inhabitants. According to our data the level of groundwater decreased this year all over Ukraine with some minor exceptions. This process is cyclical and the level of groundwater should increase soon again.”*

The team could not obtain monitoring information on groundwater levels from before and after the start of the company’s operations. Therefore the system, the volumes of water taken by the Vinnytsia poultry farm and the cumulative impacts of the facilities on local water resources remains unclear and requires further research.

In a number of instances in Olyanitsa, locals responded that the company promised to build a piped water supply system, but construction of a centralised water system had not started in the village by the time of the mission, and the development stage of this initiative remains unknown to locals.



Traffic

Interviews with people from the village of Olyanitsa revealed that since the company started operating, heavy truck traffic has intensified, with the most significant impacts experienced during construction. Company trucks still transport manure, poultry and other products directly through the village, damaging roads and causing noise, dust and vibrations that affect houses along the way. The team indeed witnessed regular traffic in Olyanitsa, and as trucks passed by, noise, dust and the odour of the cargo were quite noticeable.

Locals say that the roads in the village are not designed for heavy trucks. Villagers in Olyanitsa who lived by the main road also showed the team noticeable cracks in the brick walls of their houses. They claim to have reported this to both the company and the local authorities, but their complaints have not been taken seriously due to a lack of documented proof of the buildings' condition.

Matters are made worse by speeding trucks and the lack of effective controls on speed and road safety measures like signs and speed bumps. To alleviate the problem, some villagers in Olyanitsa have requested to lower the speed limit inside the village, but their request has so far not been accepted.

Several people suggested that Ladyzhyn was chosen by MHP for its poultry farm due to the availability of rail infrastructure serving the coal power plant, but they expected the company would also invest more in local infrastructure. People said that when construction started, Olyanitsa was promised that the company would build new roads to bypass the village, but people claim this promise was not kept.

MHP responded the following: *“For personal needs the company has built concrete roads on its own which can also be used by local inhabitants, and the company is trying to use the other roads as less as possible and also patch them. Furthermore, it is planned to build a bypass road around Olyanitsa Village, which does really accept a lot of traffic.”*⁶⁹



69 Ibid.

Health risks

Intensive livestock production as in the Vinnytsia poultry complex is often associated with an increased risk of diseases such as avian flu. Though industrial farms tend to have extensive biosecurity policies, the enormous concentration of animals, the complex production chains and the high dependency on medical support systems (such as the use of antibiotics), means that the risk for potential negative impacts is substantial. The dynamics behind the spread of avian flu and as well the transfer to humans are poorly understood and challenge the precautionary principle.

The mission heard from people that feared for their health and the health of their livestock, because of the current practices regarding manure management and the transportation of birds from the rearing houses to the slaughter house, and because of MHP's plans for expanding the complex.

Access to information

During the visit to the Ladyzhyn area the team heard from people in three villages with concerns about the lack of information regarding MHP facilities. Complaints about a lack of official written information about the company's actions and future plans were heard from those in Olyanitsa, who are already affected by the company's operations, and in Ulianovka and Bilousivka, who were approached by the company to lease their lands for the expansion of the complex during the second phase.

While in Olyanitsa people showed a certain resignation about the situation, in Ulianovka and Bilousivka where the company is planning to build rearing zones, villagers expressed concerns and mistrust towards the company and also towards local and state authorities. They have written information requests and letters to MHP and authorities but have not received any answers.

The former head of Olyanitsa said that there were public hearings about the first phase of construction of the Vinnytsia complex, but people heard about these when it was already too late to influence the project. He said that people were given a presentation about the company, but they had neither official written information nor a say on the project. The former head of the village believes that if the people had had a chance to hear about the anticipated impacts and to express their opinions, they would have voted against the company's plans.

For example, a land owner in Olyanitsa said that to his knowledge he leased the land to the company for direct agricultural activity and was unaware of the factory being built before the construction works actually started. He claimed that if he had known about the company's plans beforehand he would not have leased his land. He believes that the company's strategy of growing monocultures on the land is destroying the land's fertility. In this regard, many villagers that the team met expressed great pride

in the fertile *chernozem* and considered it inappropriate to use the land for industrial purposes and construction.

Valeriy Kolomyjtsev, the mayor of Ladyzhyn nearby which some of the facilities are constructed, said that no grievances towards the company were raised by residents of Ladyzhyn. Before the decision to permit construction work in the town, the mayor participated in an excursion to poultry production facilities in Kaniv, where participants were introduced to MHP's equipment and waste treatment facilities. The possibility to participate in such excursions were advertised in local newspapers and according to the company more than two thousand people took part in them.

A local NGO claims that they requested from the company several technical and environmental documents, including information about the current manure management system, but this information was not provided. At the same time, it is unclear how local people, rather than local authorities, are informed and involved in the communication and provided access to information. MHP has a Stakeholder Engagement Plan⁷⁰ that lists local communities as involved parties and a feedback form for communication. However, from the interviews conducted by the team it was evident that locals are not informed about the Stakeholder Engagement Plan and the feedback mechanism.

The company's website does not have environmental information about individual enterprises and their potential effects on the environment and public health. The web page has several documents that do not create a full picture of the environmental performance of the Vinnytsia poultry farm. The company stated: "*There is no requirement to post it, plus it is available upon request, but at locations. Of course we don't show it to everybody, but to [a] specialist who is professional in this issue.*"

Villagers and local authorities were not aware of the IFIs investments in MHP and its Vinnytsia operations. Both the IFC and EBRD provided some information on their web sites, however, it is limited and inaccessible, especially as nearly of it is in English, and generally the two banks distance themselves from the company's issues with public disclosure of information. According to interviews with the lenders, the IFC claims that the villagers are able to contact the company via their webpage, while the EBRD has apparently encouraged MHP to be more open and tried to push them towards more transparency. In short, both lenders place the responsibility for disclosure on the company.

In its Environmental and Social Data Sheet, the EIB reported that MHP organised one public hearing on its project in Ladyzhyn to discuss the construction and operation of an integrated chicken fodder production complex and it published the notification of assessment results in two regional newspapers. However, it failed to provide these to

70 MHP SEP, 2015, URL: <http://www.mhp.com.ua/library/file/stakeholder-interaction-plan-2015.pdf>

the EIB for the appraisal. The bank thus established relevant disbursement and signature conditions.

In conclusion, based on the documents disclosed by the IFIs, it is not possible to assess whether the project is in compliance with their standards on access to information and public participation, including with the Aarhus Convention. Therefore further requests for information have been sent to clarify whether MHP conducted public consultations and if the cumulative impact of the complex on the environment and communities is known both to the lenders and to relevant stakeholders.

Communication with the company

The company demonstrated unwillingness to communicate with CSOs: attempts to meet with the company's representatives during the mission were ignored or dealt with in an aggressive manner. In response to the report MHP stated that it was not informed about the mission. This however contradicts the fact that NECU sent an official letter requesting one, and both Bankwatch and Both Ends sent two separate e-mail requests for a meeting and, access to information and the facilities of the Vinnytsia complex.

Prior to arriving in Ukraine, a request was sent by NECU to MHP in order to meet company representatives in Ladyzhyn and Kyiv, and access to environmental information on the Vinnytsia poultry complex (see Annex 1). The company wrote back with a request to meet NECU prior to the start of the mission and during this meeting, a company representatives indicated that MHP is not willing to meet further or provide environmental information. In follow-up written communication, MHP said that it will be difficult to find mutually beneficial points for future cooperation, therefore MHP representatives will not meet or provide information for CSOs⁷¹.

During the visit to the Vinnytsia complex, the mission team attempted to meet local MHP representatives in person. Part of the mission team went to the MHP main office near Ladyzhyn and asked about the possibility to meet. However, the mission team was forced to leave the office in a rude manner by the security of the company. The EBRD and the IFI called it the situation a 'misunderstanding'.

It should be noted that local CSOs that have criticised MHP have faced considerable retaliation. During the meeting with the mayor of Ladyzhyn it was clear that critical voices are not welcome, and on the contrary, activists were presented as corrupt, lazy, unemployed people who have nothing better to do than to spread "*black PR*"⁷².

71 E-mail from the Head of investor relations and communications department dated 19.05.2015

72 Provost, C. & Kennard, M., 30 July 2015, *Ukraine agribusiness firms in 'quiet land grab' with development finance*, The Guardian, URL [last viewed on 30 July]: <http://www.theguardian.com/global-development/2015/jul/30/ukraine-agribusiness-firms-quiet-land-grab-development-finance>

Land expansion and pressure on communities

Agricultural lands in Ukraine are divided in plots of around two hectares and distributed among locals. Although villagers can own plots of lands, there is a moratorium on the sale of agricultural lands, so they can only lease them. Companies can lease land from individual owners from five to seven years for cultivation for up to 49 years for construction activities. Currently MHP pays UAH 3500–3600 per hectare in the Vinnytsia region, as the price is set by the government cadaster.⁷³

As MHP is looking to lease more lands from villagers around Ladyzhyn to expand the Vinnytsia complex, the team heard from people in Ulianovka and Bilousivka about pressure to lease their land to the company. Land owners in these two villages are currently leasing their plots for grain production to a smaller agro-holding company and in return receive both money and grain to raise their own chickens, pigs and other livestock.

The residents of Ulianovka were worried that several new chicken rearing houses are planned near their village that they believe will harm their health and livelihood. From contacts with neighbouring Olyanitsa, they fear potential drops in water levels, the worsening of sanitary standards and air quality and odour pollution. Land-owners have already expressed disagreement with leasing to MHP, and they also oppose the expansion of the company to their lands. However, they feel that the company is systematically pressuring them to reconsider their decision.

“We are the children of war, the post-war generation and know how to care for ourselves. Look at the oldest woman here. She gave her health to the land and now wants to give her land to her children. ... Help us! They pressure us to sign [the land lease]. They want to put cement blocks on top of our best land – chernozem. We are against. They send us workers to advertise the company, but what is said can be forgone. Those villages who gave their land, they did not understand what was coming. Now they come and tell us what they have. Who is going to defend our rights?”

The team was told that the MHP workers attended village meetings to promote the benefits of leasing their land to MHP. The villages had no official documentation disclosed and they are pressured to lease the land on a verbal promise from representatives of the company.

People in Ulianivka and Bilousivla describe how the company was systematically pressuring land owners individually to sign the leases, not on the community level. People were approached individually several times, with some visited up to four times. The most vulnerable people, usually elderly, single or widowed women, were targeted

⁷³ Sobotyuk, *op.cit.*

the most. The families of the workers were also among the ones who were being intimidated to sign the lease.

“We gathered together and decided against leasing our land. 410 people signed against, one was for construction. There are 50 people from the village who work for the company and they are putting pressure on these people's families.”

“The company's manner is rude, aggressive and brutal.”

People's concerns and opposition towards the company are related to the fear of pollution and health hazards that were thus far not explained sufficiently enough.

“We want investments and development to bring us closer to civilisation. But we want an investor who will not pollute our water, air and land. Already our lands are near the thermal power plant's ash disposal site, so we do not want to be sandwiched between two environmental health hazards.”

“The ash from the disposal site is on our windows. There was the fermentation plant. Now on top of it all MHP appeared. They offer us jobs, but their business is hazardous for our health. We know ammonia is dangerous ... We have a Strategic Plan for Development [of the village] and MHP is not included. If the chernozem is taken from us, we cannot feed ourselves.”

People also expressed their disappointment with local and state authorities. They have written several letters to authorities stating that they are against the Vinnytsia complex expansion: to district and state administrations, district council and the prosecutor's office (who also directed locals' requests to the departments of architecture, ecology and agriculture). The state authorities replied that the decision on construction would not be made without people's participation. However, villagers did not actually believe that the state would protect their rights, mainly due to the lack of trust between the state authorities and local people. Locals also sent letters expressing their position against construction plans to the company but have yet to receive a reply.

Conclusions and recommendations

The accounts gathered by the FFM contradict information presented by MHP and public banks that have invested in the company's operations. IFIs claim that the impacts of the large-scale industrial poultry production at the Vinnytsia complex are not significant and can be readily identified and mitigated. MHP repeatedly pointed to the fact that MHP's operations are compliant with Ukrainian law and the company is implementing best international standards.

The FFM confirmed that the negative social and environmental impacts of the Vinnytsia complex are significant and mitigated insufficiently. Obviously compliance with Ukrainian law is no guarantee that local people will not be subjected to odour, traffic noise and vibrations. Inadequate regulation and widespread corruption in Ukraine also present barriers to effective mitigation and protecting community interests and the environment.

Furthermore, the lack of company transparency and unwillingness to engage with critical stakeholders has provoked mistrust among locals, health safety fears and concerns that dropping water tables are caused by the MHP operations. The attitude of MHP is that the company can disclose and discuss 'technical' assessments and data only with experts, but at the same time written and understandable information is not available to communities, in order to respond to their questions and concerns. Although the company has an on-line complaint form, there is no indication that this form is known and used by impacted communities and individuals, so effectively there is no redress mechanism available to affected people.

The most serious concern registered by the mission relates not to current MHP operations but to the company's plans to expand the Vinnytsia complex. The team heard accounts by people in Ulianivka and Bilousivka that the company is pressing them to lease land, in spite of their opposition to the expansion. The company denies these accounts, so further follow-up is needed to resolve the questions about the second phase of the complex expansion.

Given Ukraine's abundant land resources and food production potential, modernisation of agriculture is necessary and industrialisation is inevitable. The MHP case shows the negative side effects of large-scale industrialisation of meat production and sounds the alarm about the risks that agrohholdings pose to communities that have already experienced the impacts.

In conclusion, the expansion of the Vinnytsia poultry production is exacerbated by both market demand for cheap chicken and by investor interest to promote growth in agriculture, which is the strongest sector of Ukraine's troubled economy. MHP is just one of the IFI's clients, and other investors, including a number of large Ukrainian agroholdings and foreign agribusinesses, are seizing the same opportunities, all the while crowding out fertile land and finance for household farmers and small commercial agribusinesses.

The sustainable development of Ukraine's agricultural sector requires increased transparency, accountability and the democratisation of decision-making on the local and national levels. Ukrainian authorities and companies like MHP need to engage in a transparent dialogue with local communities and civil society, to ensure questions and concerns are addressed and community grievances are dealt with adequately. The reform strategy of the new government and the policy dialogue supported by the IFIs should prioritise the strengthening of the position of household farmers and SMEs by ensuring their access to land and modern technology so that these can improve productivity and bring their products up to market standards.





“Given Ukraine's abundant land resources and food production potential, modernisation of agriculture is necessary and industrialisation is inevitable.

The MHP case shows the negative side effects of large-scale industrialisation of meat production and sounds the alarm about the risks that agroholdings pose to communities.”

CEE bankwatch
network

CEE Bankwatch Network
Na Rozcesti 1434/6
190 00 Praha 9
Czech Republic
main@bankwatch.org

<http://bankwatch.org>
@ceebankwatch