



## Monitoring Report

### International Finance Corporation Minerva Beef Project - Brazil/Paraguay

Risk category: A

Board approval: May 2013

IFC investment: loan up to \$60 million and equity investment up to \$25 million

Site visits: December 2015 and November 2016

Report prepared by technical staff from the U.S. Agency for International Development's Bureau for Economic Growth, Education and Environment with technical input from the U.S. Department of Labor's Bureau of International Labor Affairs.

## Executive Summary

The purpose of this monitoring review is to determine the degree of incorporation and effectiveness of U.S. Government recommendations and the adequacy of safeguard policies regarding a 2013 International Finance Corporation (IFC) investment supporting the regional expansion of the Brazilian beef processing firm Minerva S.A. While the scope of the IFC investment is regional, this report focuses on risks and potential adverse impacts from Minerva's primary supply chain in the Paraguayan Chaco.

The review was informed by two site visits by USAID staff to Asunción and the Paraguayan Chaco (December 2015 and November 2016), more than 40 individual and group interviews, review of project documents and technical and academic literature, and engagement with staff from IFC and Minerva.

The Paraguayan Chaco is part of the largest dry forest in the Americas, is rich in plant endemism and diversity as well as faunal diversity, and provides important water provisioning and carbon sequestration services. Cattle production has expanded in recent years, in line with government priorities, as has associated land use change. The Paraguayan Chaco has among the world's highest deforestation rates. The region is also home to indigenous peoples with unresolved claims to land. Child labor is widespread in agriculture, including cattle production.

Existing supply chain management (including traceability) in the Paraguayan cattle sector is oriented toward meeting sanitary standards necessary for export. The Paraguayan cattle sector is highly dependent on the export market and large beef processing exporters, such as Minerva, operate under strict sanitary controls and implement traceability throughout their supply chain for major export markets, such as Chile. There is, however, limited-to-no experience of large beef processors in Paraguay applying environmental and social criteria in supply chain management.

IFC identified the expected economic benefits of the Minerva Beef project to include: 1) supporting the implementation of an environmental and social action plan that promotes sustainable cattle ranching and sets a benchmark for the rest of the industry; 2) supporting continued development of a company that has broad economic impact on local rural communities; 3) contributing to global food security through a sustainable increase in beef production; 4) promoting rural economic development in frontier regions.

IFC classified this investment as Category A (highest risk category) primarily due to risks and potential adverse impacts from Minerva's primary supply chain in the Amazon and the Paraguayan Chaco. IFC's rationale for the Category A classification, as described in the project's Environmental and Social Review Summary (ESRS), identifies specific supply chain risks including deforestation, child/forced labor, encroachment on indigenous peoples' land, and respect of customary rights by Minerva's primary suppliers. IFC additionality is focused on supporting Minerva in the implementation of high environmental and social standards in its supply chain management.

Consistent with the 2012 IFC Performance Standards, the IFC-Minerva agreement included commitments to assess, identify, and remedy cases of forced or child labor in Minerva's primary supply chain. Where remedy is not possible, Minerva is to shift its primary supply chain in Paraguay over time to suppliers that can demonstrate that they are complying with IFC's performance standard on labor and working conditions. Regarding deforestation risks, the agreement included a commitment to implement a supply chain verification system involving assessment and identification of risks and limiting procurement to those suppliers that can demonstrate that they are not contributing to significant conversion of natural and/or critical habitats. The ability of Minerva to fully address labor and deforestation risks will depend on Minerva's level of management control or influence over its primary suppliers.

The United States abstained on the project in May 2013 for two reasons: 1) the proposal did not meet the United States' legislative requirements for timely disclosure of environmental impact assessments; and, 2) the United States found that the two and one-half year timeframe to implement supply chain mitigation measures in Paraguay (and Uruguay) was too long given the project's inherent environmental and social risks.

## **Findings:**

### 1. Despite known risks and potential adverse impacts in cattle supply chains, indigenous peoples and others potentially adversely impacted through Minerva's primary supply chain in Paraguay have not been explicitly included in stakeholder engagement to date

The risks and potential adverse impacts to indigenous peoples and others through Minerva's primary supply chain were well known at appraisal and were part of the primary justification for the Category A classification of the project (along with deforestation risks). USAID finds that the scope of stakeholder engagement in the Minerva Beef project to date has not been commensurate with the project's known risks and potential adverse impacts to indigenous peoples and others through Minerva's primary supply chain in Paraguay. These risks and potential adverse impacts warranted their explicit inclusion in stakeholder engagement and the application of Performance Standard 7 on Indigenous Peoples.

Although some local indigenous peoples groups have been consulted, and the Environmental and Social Review Summary discusses Minerva's plans for stakeholder engagement, including stakeholder mapping and potential engagement in broader sector discussions, and mapping is reportedly underway, consultations have not yet been held with these broader populations in the Paraguayan Chaco.

### 2. Minerva is making progress toward supply chain management; however, Minerva has not yet mitigated or lowered environmental or social risks in its supply chain in Paraguay

Through April 2017, Minerva has collected and analyzed publicly available spatial information on protected areas, indigenous peoples' titled lands, and recent deforestation to identify high risk districts (sub-departmental administrative units). Minerva has also collected and analyzed publicly available information on child labor and forced labor; however, the lack of geographical data or data specifically identifying suppliers not engaged in forced/child labor prevented Minerva from mapping or thoroughly analyzing child/forced labor risks.

Minerva's progress regarding supply chain management is noteworthy. However, nearly four years after project approval, Minerva has not yet applied its supply chain analyses to mitigate adverse impacts in Paraguay or to lower risks by progressively limiting procurement in Paraguay to suppliers that are not contributing to significant conversion of natural and/or critical habitats, or engaged in forced/child labor violations. This is well beyond the two and one-half year implementation timeline about which the United States expressed concern in its position statement.

### 3. The Paraguayan context poses challenges regarding supply chain management; however, a foundation of supply chain traceability among large export-oriented processors and producers exists on which environmental and social criteria can be applied

Compared to Brazil (Minerva's base of operation), Paraguay has a weaker legal and regulatory framework and enforcement capabilities, a less coordinated public-private sector forum to promote sector-wide reform, and less access to spatial, disaggregated or otherwise useful environmental and social information for supply chain mapping. Two challenges of particular importance are the ability to

identify suppliers not engaged in forced/child labor and the ability to map indigenous lands traditionally owned or under customary use. There exists within Paraguay, however, a foundation of traceability, especially among large beef processing exporters such as Minerva, that illuminates characteristics of and connections among cattle producers and processors. This is especially the case for cattle producers from whom beef processing exporters purchase, given national zoosanitary requirements and the requirements of important export markets. With concerted efforts to generate environmental and social information and develop more precise environmental and social criteria, these criteria could be applied by Minerva and IFC to the existing foundation of traceability to mitigate or lower supply chain risks. This principle of addressing environmental and social risk management by building on existing systems of traceability is emphasized throughout the *IFC Good Practice Handbook: Assessing and Managing Environmental and Social Risks in an Agro-Commodity Supply Chain*.

4. IFC's assessment prior to Board approval may not have sufficiently assessed Minerva's capacity for environmental and socially sustainable supply chain management in the dynamic Paraguayan context

IFC's investment in Minerva's expansion into Paraguay is premised on the ability of Minerva to go beyond existing industry practice in Paraguay to apply sustainable environmental and social practices, especially regarding supply chain management. Project documents include three critical assumptions regarding Minerva's ability to implement environmentally and socially sustainable supply chain management in Paraguay: 1) that Minerva either has or would be able to quickly gain sufficient leverage over primary suppliers to effect change among them regarding environmental and social management practices; 2) if Minerva does not have or cannot quickly gain sufficient leverage, that Minerva has access to alternative suppliers whose practices meet IFC standards; and 3) that implementing supply chain management practices consistent with the IFC performance standards would not be counter to the financial interest of Minerva. None of these critical assumptions has yet borne out.

IFC staff explained that their assessment at appraisal investigated issues related to the three critical assumptions. Staff also explained that factors affecting IFC's assessment have changed since appraisal. The Project Appraisal Document (PAD) and ESRS, however, contain limited information describing IFC's investigations, their findings, or how the project might adaptively manage change. Based on these public documents and conversations with IFC staff, it appears that IFC's assessment of these critical assumptions prior to Board approval was not proportionate to their level of importance.

5. IFC's investment in Minerva is not providing the intended industry benchmark and demonstration effect; however, IFC and Minerva have taken recent steps toward broader industry change

Minerva's slower-than-expected pace in mitigating or lowering supply chain risks has meant that, thus far, Minerva has not provided the intended industry benchmark. Minerva and IFC have taken steps, however, toward a more sector-wide approach that may affect broader change. These steps include IFC and Minerva participation in the Forest Conservation Agriculture Alliance, a collaboration including conservation NGOs, a private cattle cooperative, a sub-national government association and USAID to promote sustainable cattle production in Paraguay, especially the Chaco region. IFC's Manufacturing, Agribusiness, and Services Advisory team recently initiated an Advisory Services initiative aiming to support the development of Paraguayan beef ranching sustainability principles, to work with banks and regulators to enable responsible financing of cattle production in the Chaco, and to support improved traceability and transparency in the cattle sector generally and with Minerva specifically. Finally, related to these initiatives, Minerva and IFC are participating in the Paraguay-level Global Roundtable for Sustainable Beef.

## Recommendations:

### 1. Implement the mitigation and risk-reducing measures required in the performance standards in a reasonable, established timeframe

While many of the challenges hampering Minerva's efforts to mitigate or lower supply chain risks persist, USAID recommends that IFC work with Minerva to establish and disclose new deadlines to implement the supply chain management risk mitigation and risk reduction requirements of the performance standards, and regularly update public information on Minerva's implementation. Maintaining open-ended timeframes for implementing these standards further exposes IFC and Minerva to implementation and reputational risk and diminishes the authority of IFC's performance standard requirements for supply chain management.

### 2. Use new, publicly available data to map child labor in Minerva's supply chain in Paraguay

In September 2016, the Government of Paraguay published results from the 2015 Survey of Activities of Rural Area Children and Adolescents (EANA Rural 2015), conducted by the Government of Paraguay's national statistical office (DGEEC) with technical assistance from the International Labor Organization. The EANA Rural 2015 identified 384,677 children engaged in child labor in agriculture, including 142,127 children ages 5 to 17 engaged in child labor in the cattle sector. The micro-dataset from the survey is publicly available for three departments and could be useful for mapping some child labor in Minerva's supply chains. These data could be useful for mapping some child labor in Minerva's supply chains.

### 3. Expand recent efforts towards sector-wide change in cattle supply chain management in Paraguay, including multi-donor and multi-stakeholder initiatives and cumulative impacts analyses

As noted in Finding 5, IFC and Minerva are taking positive steps towards broader industry change regarding environmental and social standards in supply chain management in Paraguay. IFC is encouraged to coordinate with other parts of the World Bank Group, and potentially other multilateral and bilateral donors, to work closely with the Government of Paraguay, other industry actors, indigenous peoples' organizations and other stakeholders to address the links between cattle production, deforestation, land tenure, indigenous peoples' rights, labor practices, and protected area management. This coordinated effort could involve supporting the Government of Paraguay in completing a cumulative impacts assessment of the cattle industry and include robust engagement of stakeholders, especially indigenous peoples and others in the Paraguayan Chaco who are potentially adversely impacted through the cattle supply chain.

Further, the Paraguayan Roundtable on Sustainable Beef, in which IFC and Minerva are now actively participating, could aim to promote the Sustainable Agricultural Network's (SAN's) certification standard for sustainable beef. In addition to environmental standards, SAN's standards include social and labor standards.

### 4. Upgrade and integrate web-based loan portfolio information from donors to facilitate cumulative impacts assessments

Complementary to recommendation 3, IFC is encouraged to coordinate with other donors to upgrade and integrate the databases geo-referencing loan portfolios in order to highlight potential cross-sectoral cumulative impacts and to facilitate cumulative impact assessments.

## **Glossary of Acronyms**

ESAP	Environmental and Social Action Plan
ESRS	Environmental and Social Review Summary
FMD	Foot and Mouth Disease
INDI	National Institute for Indigenous Affairs
IFC	International Finance Corporation
NGO	Non-Governmental Organization
OUSED	Office of the U.S. Executive Director to the World Bank Group
PAD	Project Appraisal Document
PS	IFC Performance Standards on Social and Environmental Sustainability
USAID	United States Agency for International Development

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## Purpose and Scope of Monitoring Review

Section 7060(c)(7)(E)(i)(III) of Public Law No. 113-235 mandates the United States Agency for International Development (USAID) to undertake ongoing monitoring of multilateral development bank projects reviewed pursuant to USAID's reporting responsibilities under Title XIII of the International Financial Institutions Act of 1977, as amended. The purpose of reviews is to determine the degree of incorporation and effectiveness of U.S. Government recommendations and the adequacy of safeguard policies.

This monitoring report is focused on a 2013 International Finance Corporation (IFC) investment of up to US \$85 million to the Brazilian beef processing firm Minerva S.A. Among other objectives, the "Minerva Beef Project" is supporting the expansion of Minerva's processing and slaughtering operations in South America, including Paraguay.

The Project Appraisal Document (PAD),<sup>1</sup> Environmental and Social Review Summary (ESRS)<sup>2</sup> and U.S. Government recommendations on this project made prior to the board vote<sup>3</sup> highlighted the potential risks and impacts of Minerva's cattle supply chain. The ESRS specifically highlights the Amazon and (Paraguayan) Chaco regions as locations where Minerva's supply chain risks and potential impacts could be significant, diverse, irreversible and unprecedented. U.S. Government recommendations are geographically focused on Uruguay and Paraguay and USAID's recommendations are specific to the Paraguayan Chaco. Considering the above, this monitoring report focuses on the degree of incorporation and effectiveness of U.S. Government (including USAID) recommendations and the adequacy of IFC safeguard policies regarding risks and potential adverse impacts of Minerva's supply chain in the Paraguayan Chaco.

## Methods

The review included two site visits by USAID staff (December 2015 and November 2016). The reviewers used a variety of data gathering techniques, including review of project documents, technical literature, and academic literature; stakeholder identification and mapping; interviews with individuals knowledgeable on the topic; individual stakeholder interviews; stakeholder focus group discussions; community meetings; and participant observation.

The reviewers conducted more than 40 individual interviews and focus group discussions with project sponsors and proponents—including staff from IFC, Minerva, and various ministries of the Government of Paraguay—interested or affected organizations—including private cattle cooperatives, other private sector actors, consultants, environmental NGO's, faith-based organizations, indigenous peoples organizations, women and youth organizations—and potentially project-affected people—including indigenous peoples. Sampling was purposeful and aimed at understanding multiple stakeholders' perspectives.

The PAD and ESRS are the only publicly available documents regarding the IFC Minerva Beef project. Project document review was limited to these documents. IFC and Minerva personnel offered oral and

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<sup>1</sup> IFC. 2013 (March). Report to the Board of Directors on a Proposed Investment in Minerva S.A. for the Minerva Beef Project. International Finance Corporation (Project Appraisal Document).

<sup>2</sup> IFC Minerva Beef Project Environmental and Social Review Summary. <http://ifcextapps.ifc.org/ifcext/spiwebsite1.nsf/78e3b305216fcd8a85257a8b0075079d/4627ff31488cb32685257b3d00583091?opendocument>. Last accessed April 1, 2017.

<sup>3</sup> USAID and U.S. Government recommendations are included in full in Annexes 2 and 3.



limited written feedback on the project in response to specific questions posed. IFC staff explained that, consistent with their 2012 Access to Information Policy, they were constrained by client confidentiality in what they could disclose about the project.

## Paraguayan Chaco: Ecological, Social and Industry Context

### Biodiversity rich, valuable ecosystem services, and culturally diverse

The Paraguayan Chaco (230,000 km<sup>2</sup>) is part of the biodiversity-rich South American Gran Chaco, the second largest forest in Latin America and, at 850,000 km<sup>2</sup>, the largest dry forest in the Americas. The Gran Chaco is rich in plant endemism and species diversity as well as faunal diversity. The region provides important water provisioning services and carbon sequestration services.<sup>4</sup> The Gran Chaco, and the Paraguayan Chaco specifically, are among the most culturally diverse regions in Latin America. There are 13 ethnic groups in the Paraguayan Chaco representing five indigenous language families. The region is also home to the Ayoreo Jonoine-Urasade, the last known group of people in South America, outside of the Amazon, living in voluntary isolation.<sup>5</sup>



“Approximate location and borders of the Gran Chaco. The natural border to the west is the Andes and, to the east, the Paraguay River; its northern and southern borders are less well-defined.”<sup>6</sup>

<sup>4</sup> Conservation International – Global Environment Facility Project Agency 2013. Project Screening Form. Available: <http://www.conservation.org/gef/Documents/Paraguay-Carbon/131226-Safeguard%20Screening%20Form-5668-Paraguay%20Carbon.pdf>

<sup>5</sup> UN 2009. UN Permanent Forum on Indigenous Issues Mission to Paraguay Report and Recommendations. [http://www.un.org/esa/socdev/unpfii/documents/UNPFII\\_Mission\\_Report\\_Paraguay\\_EN.pdf](http://www.un.org/esa/socdev/unpfii/documents/UNPFII_Mission_Report_Paraguay_EN.pdf)

<sup>6</sup> Underlying map taken from the CIA World Factbook [https://www.cia.gov/library/publications/the-world-factbook/graphics/ref\\_maps/physical/pdf/south\\_america.pdf](https://www.cia.gov/library/publications/the-world-factbook/graphics/ref_maps/physical/pdf/south_america.pdf) . Approximation of Gran Chaco taken from <https://commons.wikimedia.org/wiki/File:GranChacoApproximate.jpg>.

## Dispossession and struggle for indigenous peoples' land, livelihoods and health

Spanish conquest and colonization, conflict-induced displacement, and confiscation and privatization of land in the Paraguayan Chaco by various post-independence authoritarian regimes (most notably General Alfredo Stroessner's dictatorship from 1954-1989) have severely limited indigenous peoples' land rights, land-based livelihoods and health<sup>7</sup>.

The Indigenous Communities Statute of 1981 established a government institution responsible for indigenous affairs, the National Institute for Indigenous Affairs (INDI), and defined procedures for INDI to follow to recognize the legal status and land claims of indigenous communities. Beginning in the early 1990's, the Government of Paraguay created laws and administrative structures to mitigate past dispossession of indigenous peoples' land. Chapter V of the 1992 Constitution, for example, "was at the time of its writing one of the most progressive legal instruments in existence in terms of the recognition of the rights of indigenous peoples."<sup>8</sup>

Today, land titles in the Paraguayan Chaco are predominantly held by large European landowners, local elites, Mennonite communities, Brazilians and Uruguayans. Some indigenous peoples hold title to some land in the Paraguayan Chaco; however, the majority of the land they occupy is held under insecure customary tenure arrangements. Foreign investors are increasingly entering the Paraguayan Chaco and acquiring land in response to commercial opportunities and government tax incentives. Cattle production is among the primary uses of privatized land (see below).

As an increasing amount of land in the Paraguayan Chaco is privatized and converted to pasture, indigenous peoples are losing access to the resources on these lands for food, water and health. During USAID's November 2016 field visit, indigenous peoples' communities and civil society organizations reported the increasing use of fences and, in some cases, armed guards to demarcate private land and restrict access. This is occurring on lands to which indigenous peoples have customary rights and, in some cases, formal land claims. For example, a case study of the unresolved land claim of the Ayoreo-Totobiegosode peoples demonstrating the impacts on indigenous peoples in the Paraguayan Chaco is presented in Annex I.

INDI capacity to assist in resolving indigenous peoples' land claims is severely limited for at least two reasons. First, INDI does not maintain an office or any representation in the Paraguayan Chaco. Second, as a representative of INDI reported to USAID in November 2016, the government organization recently suffered a dramatic budget cut (approximately 70 percent) and is now focusing most of its remaining resources away from assisting indigenous peoples with land claims and instead on the provision of services and infrastructure on existing indigenous peoples' titled land.

Paraguay's indigenous peoples are the poorest and most marginalized segment of the Paraguayan population. Their limited land rights and conditions of poverty and marginalization have left them few livelihood options other than working on cattle ranches and dairy farms in the Chaco, often in precarious positions (as described below).<sup>9</sup>

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<sup>7</sup> UN 2015. Report of the Special Rapporteur on the Rights of Indigenous Peoples, Victoria Tauli-Corpuz, regarding the situation of indigenous peoples in Paraguay. UN Office of the High Commissioner for Human Rights: <http://unsr.vtaulicorpuz.org/site/index.php/documents/country-reports/84-report-paraguay>

<sup>8</sup> Ibid. p. 4.

<sup>9</sup> Ibid.

## The introduction and growth of the cattle industry in the Paraguayan Chaco

The Government of Paraguay encouraged foreign immigration and settlement in the Chaco in the early 20th century. Most prominently, this resulted in the migration and settlement, beginning in 1926, of various Mennonite groups. In subsequent decades, these groups initiated commercial cattle production in the Paraguayan Chaco, driving economic development and land use change, particularly in its central region, a large portion of the Department of Boquerón.<sup>10</sup>

The national herd size grew steadily through 2004. From 2004 to 2012, however, the herd size rose steeply from 9.6 to 13.3 million head. Cattle expansion is occurring at the highest rates in the country's Chaco region.<sup>11</sup> Government of Paraguay staff explained to USAID in December 2015 and November 2016 that the government aims to increase the national herd size to 20 million head by 2020, with most of this expansion occurring in the Chaco region.

Extensive cattle grazing on large private ranches cleared of forests and cultivated with grasses is the common mode of production in the Paraguayan Chaco. While reported ratios vary, the number of cattle per hectare in the Paraguayan Chaco is generally less than one. In speaking with USAID staff, representatives of private cattle cooperatives mentioned efforts to intensify cattle production—requiring less land per head of cattle. However, these efforts were reported to be in their infancy and not widespread. Without increased intensification, increasing herd sizes involves an increase in the overall land area under cattle production and associated deforestation.

## Deforestation

Published deforestation rates vary by source, but all point to rates among the highest in the region and the world. According to the local NGO Guyra Paraguay, which collaborates with the multi-stakeholder Chaco Network Initiative, a total of 502,308 hectares have been deforested in the Gran Chaco Region of South America during 2013, equivalent to a rate of 1,376 hectares per day. Of this total deforestation, the Paraguayan Chaco accounted for the largest amount with 236,869 hectares and the Chaco Region's Departments of Alto Paraguay and Boquerón had the highest deforestation rate from 2011-2013.<sup>12</sup> Similarly, the World Resources Institute's Global Forest Watch, using data from the University of Maryland, identifies Paraguay as having the fastest rate of deforestation of natural forests in the Western hemisphere from 2001-2014.<sup>13</sup> National park rangers based in the Paraguayan Chaco explained to USAID in December 2016 that the increasing rate of deforestation is isolating the parks in the region.

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<sup>10</sup> Redekop, C.W. 1980. "Strangers become neighbors: Mennonite and Indigenous Relations in the Paraguayan Chaco (Studies in Anabaptist and Mennonite History #22). Herald Press. Scottsdale, Pennsylvania.

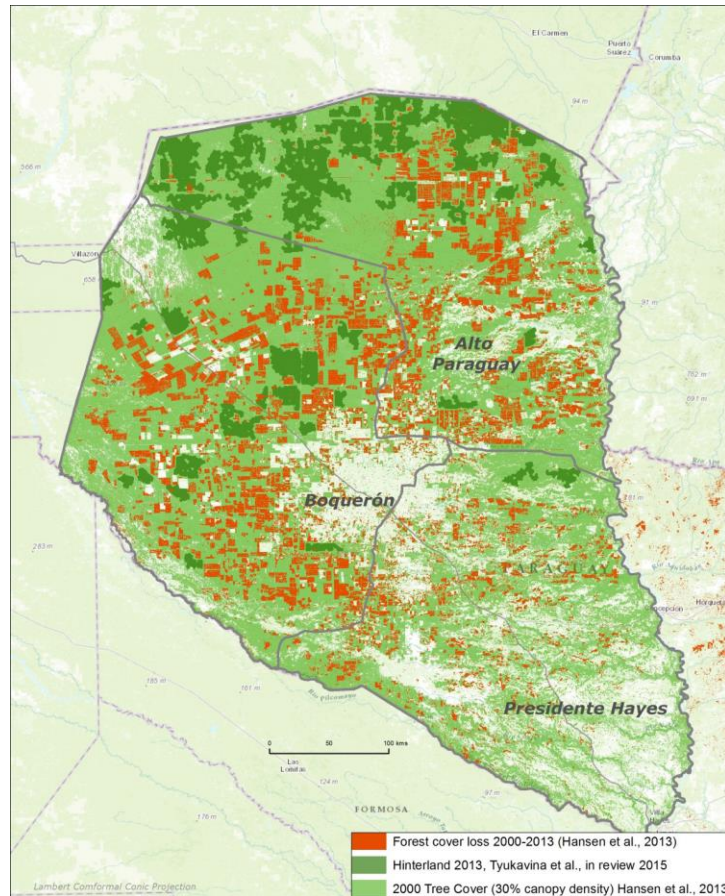
<sup>11</sup> World Bank Group. (June) 2015. Agriculture Global Practice Technical Assistance Paper. Paraguay Agricultural Sector Risk Assessment: Identification, Prioritization, Strategy, and Action Plan. Carlos Arce, Jorge Caballero, and Diego Arias. World Bank Group Report Number 93943-PY.

<sup>12</sup> Cardozo, Romina, Fenando Palacios, Jazmin Caballero y Fabiana Arévalos. Informe Annual – 2013. Resultados del Monitoreo de los Cambios de Uso de la Tierra, Incendios e Inundaciones Gran Chaco Americano. Iniciativa Redes Chaco. Guyra, Paraguay.

<sup>13</sup> <http://www.globalforestwatch.org/map>

The map below illustrates the encroachment of agricultural and pasture lands (without distinction) into the native Chaco forest types from 2000-2013. The “hinterland forests” identified in dark green, are the best remaining fragments of conserved forest.<sup>14</sup>

Forest cover loss in the Paraguayan Chaco 2000-2013



Representatives from the Government of Paraguay explained to USAID staff that they have made incremental progress regarding the protection of land and regulation of land clearing. For example, the Ministry of Environment is now implementing a new Environmental Impact Assessment process, including public notification and consultation. There are also ongoing efforts to use remote sensing technology to monitor land clearing and verify that such clearing is consistent with permitting. Civil society representatives, however, were generally critical of the government’s implementation and enforcement of laws and regulations related to deforestation and were specifically critical of the new initiatives mentioned above.

<sup>14</sup> Hinterland forest product presented here [in dark green] is an intermediate layer which complements the Intact Forest Landscape (IFL) concept through the implementation of a defined disturbance interval, in this case the twelve-year forest loss record of Hansen et al. (2013). Hinterland forests are defined as forest patches absent of and removed from disturbance in near-term history. Forest is defined here as tree cover taller than 5m with canopy cover  $\geq 25\%$  according to the product of Hansen et al. (2013). Criteria for the differentiation of hinterland forests are: a) distance from recent stand-replacement disturbance ( $>1$  km); b) minimum forest patch size ( $100\text{km}^2$ ); c) connectivity of hinterland forest patches (minimum corridor width: 2 km); d) interval of extant forest (12 years). Hinterland forests are thematically different from the IFL which include both forests and non-forest ecosystems (Potapov et al 2008).

Private sector beef processors have thus far played little to no role in preventing or mitigating deforestation (recent efforts toward these goals are addressed in the findings section). For example, USAID was unable to find any evidence that any private sector beef processor is imposing any environmental or social sustainability requirements on suppliers in the cattle supply chain. Considering all of the above factors, it appears that as the cattle supply in the Paraguayan Chaco increases, and if prevention and mitigation efforts are not effectively implemented, deforestation will likely continue.

### Child and forced labor

In 2009, at the request of the Government of Paraguay, the United Nations (UN) Permanent Forum on Indigenous Issues assessed the validity of complaints of forced labor and servitude among indigenous communities in the Paraguayan Chaco.<sup>15</sup> The resulting report highlighted “a decade of documentation” of such practices citing numerous previous UN and NGO reports on, among other issues, the prevalence of debt bondage on cattle ranches. Through interviews and meetings with a wide variety of representatives from government ministries, indigenous peoples organizations, NGOs, other UN Agencies, and indigenous communities, the UN Permanent Forum report validated the existence of forced labor and servitude among indigenous men and women, child labor, inadequate working conditions, restrictions on freedom of association, weak presence of the State, and resulting food insecurity in indigenous communities.

The U.S. Department of State continues to report that indigenous persons in the Chaco have difficulty accessing government services and face severe political and economic exclusion as well as poor labor conditions including low wages, long hours, unjustified firings, and delays and nonpayment of wages. In 2016, formal complaints were filed by NGOs, indigenous organizations, the Central Workers Unit, and the International Labor Organization (ILO) on behalf of indigenous workers in debt-bondage in the Chaco. Workers did not receive pay, received pay in kind with substandard food items, or were forced to purchase goods at debt-inducing prices at a company store.<sup>16</sup>

In September 2016, the Government of Paraguay published results from the 2015 Survey of Activities of Rural Area Children and Adolescents (EANA Rural 2015), conducted by the Government of Paraguay’s national statistical office (DGEEC) with technical assistance from the ILO. The EANA Rural 2015 identified 384,677 children engaged in child labor in agriculture, including 142,127 children ages 5 to 17 engaged in child labor in cattle.<sup>17</sup> The 2011 National Survey of Child and Adolescent Activities indicated that children who speak Guaraní exclusively are more likely to be involved in child labor and have higher rates of school absence as compared to other working children; poverty is pervasive in rural Paraguay, where Guaraní is the predominant language. Approximately 13 percent of children engaged in child labor in agriculture do not attend school and 11.8 percent of working children ages 14 to 17 have not completed primary school. School buses or other forms of public transportation are limited in rural areas and school infrastructure is often inadequate in rural and indigenous communities.

Although Paraguay has programs that target child labor, the scope and funding level of these programs is insufficient to fully address the extent of the problem, and programs are limited by the absence of

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<sup>15</sup> UN 2009. UN Permanent Forum on Indigenous Issues Mission to Paraguay Report and Recommendations. [http://www.un.org/esa/socdev/unpfii/documents/UNPFII\\_Mission\\_Report\\_Paraguay\\_EN.pdf](http://www.un.org/esa/socdev/unpfii/documents/UNPFII_Mission_Report_Paraguay_EN.pdf)

<sup>16</sup> US Department of State. 2017 (March). "Paraguay," in Country Reports on Human Rights Practices- 2016. <https://www.state.gov/j/drl/rls/hrrpt/humanrightsreport/index.htm?year=2016&dliid=265606>

<sup>17</sup> ILO. 2016 (September). Trabajo infantil y adolescente en el sector rural agrícola, pecuario, forestal y de pesca y piscicultura en Paraguay - Encuesta de actividades de niños, niñas y adolescentes (EANA RURAL 2015). [http://www.ilo.org/ipecc/Informationresources/WCMS\\_IPEC\\_PUB\\_28676/lang--es/index.htm](http://www.ilo.org/ipecc/Informationresources/WCMS_IPEC_PUB_28676/lang--es/index.htm)

government education and health services in rural areas. Additional programs are needed to reach the large numbers of working children, especially in agriculture. Paraguay's law enforcement agencies lack resources, including staff and training, to sufficiently identify, investigate, and prosecute cases of the worst forms of child labor; as a result, the number of convictions of crimes related to the worst forms of child labor is insufficient and existing penalties are inadequate deterrents.<sup>18</sup>

### The Paraguayan Cattle Sector, Supply Chain, and Traceability

The Paraguayan cattle/beef sector is highly dependent on the export market, with roughly 65 percent of beef production exported.<sup>19</sup> As of late 2016, Paraguay had 15 large slaughter plants eligible to export, a total of 20 processing plants authorized to export, and 13 plants eligible to export to most markets.<sup>20</sup> Most large plants are owned by Brazilian companies, while Mennonite cooperatives operate four plants. These large plants produce roughly 75-80 percent for export and the balance for the domestic market.<sup>21</sup> Minerva's Frigomerc plant in Asuncion is one of the main slaughterhouse and processing plants in Paraguay, producing over 20 thousand tons of meat which are primarily exported to the United Arab Emirates, Russia, Chile, Brazil, Israel, and countries from the European Union (EU).<sup>22</sup> Minerva's other Paraguayan plants also export to Russia, Brazil, Egypt, and Peru.<sup>23</sup>

Large beef exporters operate under strict sanitary controls, and implement traceability throughout their supply chain.<sup>24</sup> Controlling foot and mouth disease (FMD) through sanitary programs and traceability is important for Paraguay, as the last FMD outbreak in 2011 was a large shock to the national economy and the livestock sector, including the loss of Paraguay's largest export market at that time, Chile.<sup>25</sup> Large beef exporters serving certain markets (such as the EU) require individual cattle information on upstream supplier traceability, along with basic information such as weight, age, genetics, and cattle vaccination and veterinary records.<sup>26</sup> When supplying to other markets, beef exporters use the data and information collected by SENACSA's SIGOR (see below), which is more general.

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<sup>18</sup> US Department of Labor, Bureau of International Labor Affairs. 2016 (September). "2015 Findings on the Worst Forms of Child Labor: Paraguay." [https://www.dol.gov/agencies/ilab/resources/reports/child-labor/paraguay#\\_ENREF\\_5](https://www.dol.gov/agencies/ilab/resources/reports/child-labor/paraguay#_ENREF_5)

<sup>19</sup> U.S. Department of Agriculture, Foreign Agricultural Service (USDA-FAS), Global Agricultural Information Network. *Paraguay: Livestock and Products Annual- 2016*, August 22, 2016, pp. 1-2. Available: [https://gain.fas.usda.gov/Recent%20GAIN%20Publications/Livestock%20and%20Products%20Annual\\_Buenos%20Aires\\_Paraguay\\_8-22-2016.pdf](https://gain.fas.usda.gov/Recent%20GAIN%20Publications/Livestock%20and%20Products%20Annual_Buenos%20Aires_Paraguay_8-22-2016.pdf)

<sup>20</sup> Ibid.

<sup>21</sup> Ibid.

<sup>22</sup> Minerva Foods, "Frigomerc: About Us." Available: <http://portal.minervafoods.com/en/about-us-frigomerc>

<sup>23</sup> Government of Paraguay, Servicio Nacional de Calidad y Salud Animal (SENACSA), Lista de mataderos frigoríficos y sala de cortes de exportación. Available: [http://www.senacsa.gov.py/application/files/3314/7861/0332/161102-SENACSA\\_Lista\\_mat\\_frigorificos\\_salas\\_corte\\_exportacion.pdf](http://www.senacsa.gov.py/application/files/3314/7861/0332/161102-SENACSA_Lista_mat_frigorificos_salas_corte_exportacion.pdf)

<sup>24</sup> C. Arce, J. Caballero, and D. Arias. *Paraguay Agricultural Sector Risk Assessment: Identification, Prioritization, Strategy, and Action Plan*. Agriculture Global Practice Technical Assistance Paper, World Bank Group Report No. 93943, June 2015, pp. 1-18, 1-19 and Box 3.2. Available: <http://documents.worldbank.org/curated/en/556311467986343378/pdf/93943-REVISED-Box393201B-PUBLIC-53889TA-No-3-Paraguay-Ag-Sector-Risk-Assessment-WEB-26-06-2015-jtc.pdf>

Also: Written communication from USDA/FAS, Buenos Aires. March 31, 2017.

<sup>25</sup> World Bank Group Report No. 93943. *Paraguay Agricultural Sector Risk Assessment: Identification, Prioritization, Strategy, and Action Plan*, p. 1-20.

<sup>26</sup> Ibid.

Large beef processing plants purchase primarily from large commercial producers with farms (ranches) of 500 or more head of cattle.<sup>27</sup> Relationships between large beef processors and large producers (ranchers) are typically longstanding and based on mutual trust.<sup>28</sup> The largest cattle producers are only three percent of the total, but supply 61 percent of total production.<sup>29</sup> They possess high levels of capital, participate in the sanitary campaigns and traceability programs, and are fully integrated into the agro-industrial supply chain.<sup>30</sup> Large cattle producers may be vertically integrated, engaged in breeding, backgrounding, and finishing of their own cattle.<sup>31</sup> Alternatively, cattle finishers may purchase feeder cattle to finish.<sup>32</sup>

A U.S. Department of Agriculture specialist described the characteristics of transactions between large cattle producers and large export-oriented processors as follows: When producers have fed cattle to sell, they typically contact two or three beef processors to learn about their buying conditions (price, date of delivery, payment terms, etc.) and come to agreement. Freight is normally organized and paid by the producer. There are some “branded beef” programs managed by local breed associations (such as Brahman, Braford, Brangus, and Angus) through which members can market cattle to the slaughter plant with which an agreement was signed and receive a premium price.<sup>33</sup>

### Traceability for Export Markets

A World Bank Group report emphasizes the importance of mandatory traceability in Paraguay to control FMD and mitigate risk to producers and processors in the livestock sector.<sup>34</sup> Two programs in Paraguay provide traceability for beef exports: 1) SITRAP, which is for individual animals and is used for exports to the EU; and 2) SIGOR, which is for groups of animals for export to any market.<sup>35</sup> As of 2016, almost 3,000 ranches were registered in both SIGOR and SITRAP, accounting for 3.5 million head of cattle,<sup>36</sup> of a total of approximately 14 million head in the national herd. For exports to the Chilean market, producers need to have their operations registered, as discussed below.

SIGOR (*Sistema de Gestión de Oficinas Regionales*) is a mandatory information and traceability system administered by Paraguay’s Animal Control and Health agency, SENACSA.<sup>37</sup> SIGOR traces the movement of groups of animals from establishments of origin to destination, providing data on ownership, numbers, class, types, and brands of cattle.<sup>38</sup> All movement of cattle and transfer of ownership requires authorization by SENACSA through an official certificate of transit known as the COTA (*Certificado Oficial de Tránsito de Animales*), which certifies that cattle have met immunization

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<sup>27</sup> Written communication from USDA-FAS, Buenos Aires. March 31, 2017. Also: *Paraguay Agricultural Risk Assessment*, Box 3.2, p. 1-19.

<sup>28</sup> Written communication from USDA-FAS, Buenos Aires. March 31, 2017.

<sup>29</sup> World Bank Group Report No. 93943, *Paraguay Agricultural Risk Assessment*, p. 1-19, Box 3.2.

<sup>30</sup> *Ibid.*

<sup>31</sup> The breeding stage refers to the period from birth of the calves through weaning, at 0-9 months. Backgrounding is the intermediate stage of beef production, typically between 9-18 months, when calves are raised on a forage-based diet so they grow in muscle and frame. These feeder cattle are then sent to finishers for fattening before slaughter (18-36 months).

<sup>32</sup> Written communication from USDA-FAS, Buenos Aires. March 31, 2017.

<sup>33</sup> *Ibid.*

<sup>34</sup> World Bank Group Paper, *Paraguay Agricultural Risk Assessment*, p. 1-48, Table 6.5.

<sup>35</sup> USDA-FAS, *Paraguay: Livestock and Products Annual- 2016*, p. 4, and Servicio Nacional de Calidad y Salud Animal (SENACSA). Available: <http://www.senacsa.gov.py/index.php/informaciones/trazabilidad>

<sup>36</sup> USDA-FAS, *Paraguay: Livestock and Products Annual- 2016*, p. 4.

<sup>37</sup> Servicio Nacional de Calidad y Salud Animal (SENACSA). Available: <http://www.senacsa.gov.py/index.php/informaciones/trazabilidad>

<sup>38</sup> SENACSA, “Trazabilidad.” Available: <http://www.senacsa.gov.py/index.php/informaciones/trazabilidad>



requirements against FMD; all movements reflected in the COTAs are registered on SIGOR.<sup>39</sup> Establishments cannot be issued a COTA if they have not complied with vaccination requirements or have been put on a blocked list by SENACSA.<sup>40</sup>

SITRAP (*Sistema de Trazabilidad del Paraguay*) is a voluntary program based on cooperation between SENACSA and the private sector which enables traceability of individual livestock from birth to the slaughterhouse for establishments registered in the program.<sup>41</sup> Information collected under SITRAP includes sanitary measures, veterinary records, and compliance with exporters' requirements related to prohibited pharmaceuticals; all movements of the cattle throughout the supply chain; and any changes in ownership of the cattle, whether individuals or groups.<sup>42</sup> The EU requires individual traceability of cattle.<sup>43</sup> The market for exports to the EU reopened in 2015, following closure in 2011 due to the FMD outbreak. Minerva is authorized to export to the EU from Paraguay, and began to do so in 2015.<sup>44</sup> Minerva states that the EU market represented about two percent of sales in 2016, and that it began collecting data on the ranch coordinates for EU suppliers in 2017.<sup>45</sup>

As of 2016, 40 percent of Minerva's slaughtered cattle were destined for export to Chile. These cattle were sourced from nearly 20% of Minerva's suppliers.<sup>46</sup> Chile has strict traceability requirements for imported beef, and cattle suppliers as well as processing plants must be certified to export to Chile.<sup>47</sup> The supplier must be registered with SIGOR, provide basic information such as location (ranch coordinates), indicate whether it is a breeder, backgrounder, or finisher of cattle, and agree to comply with all pertinent requirements, including sanitary conditions.<sup>48</sup> In addition, the supplier must also provide a report generated by SIGOR of the cattle's movements since the last round of vaccinations.<sup>49</sup> An approved veterinarian must inspect the cattle prior to export and issue a COIBFE (*Certificado Oficial*

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<sup>39</sup> SENACSA, COTA, Expedición del Certificado Oficial de Transito de Animales - COTA. Available: <http://www.senacsa.gov.py/index.php/pecuaria/control-de-transito-de-animales/certificado-oficial-de-transito-de-animales>. Documentation needed for the COTA also includes updated information on entry, exit, births and mortality rates of the cattle. See SENACSA, COTA, Certificado de transito de animales (COTA). Available: <http://www.senacsa.gov.py/index.php/servicios/centro-de-atencion-al-publico/tramites/tramites-establecimientos-pecuarios/certificado-de-transito-de-animales-cota>

<sup>40</sup> Ibid., SENACSA/COTA.

<sup>41</sup> SITRAP, Frequently Asked Questions. Available: [http://www.sitrap.org.py/preguntas\\_frecuentes.php](http://www.sitrap.org.py/preguntas_frecuentes.php)

<sup>42</sup> SITRAP, Frequently Asked Questions (FAQs). Available: [http://www.sitrap.org.py/preguntas\\_frecuentes.php](http://www.sitrap.org.py/preguntas_frecuentes.php)

<sup>43</sup> Ibid., SITRAP, FAQs.

<sup>44</sup> Ultima Hora, "Envios de carne a UE," May 8, 2015. Available: <http://m.ultimahora.com/envios-carne-ue-n894549.html>

<sup>45</sup> Communication from Minerva to USAID, April 26, 2017.

<sup>46</sup> Communication from Minerva to USAID, April 7, 2017. Tables 2 and 3, p. 5.

<sup>47</sup> SENACSA, Products and Sub-products for Export to the Republic of Chile. Available: <http://www.senacsa.gov.py/index.php/productos-y-subproductos/exportacion/republica-de-chile>; List of Livestock Establishments Authorized to Provide Cattle Destined for Beef Exports to Chile. Available: [http://www.senacsa.gov.py/application/files/9614/5375/6357/Lista\\_EGH-CHL\\_005-2016.pdf](http://www.senacsa.gov.py/application/files/9614/5375/6357/Lista_EGH-CHL_005-2016.pdf). See also SENACSA's list of authorized meat exporters. Available: [http://www.senacsa.gov.py/application/files/3314/7861/0332/161102-SENACSA\\_Lista\\_mat\\_frigorificos\\_salas\\_corte\\_exportacion.pdf](http://www.senacsa.gov.py/application/files/3314/7861/0332/161102-SENACSA_Lista_mat_frigorificos_salas_corte_exportacion.pdf)

<sup>48</sup> SENACSA, Application for Authorization of Ranches/Cattle Breeders Providing Cattle Destined for Export to Chile. Available: [http://www.senacsa.gov.py/application/files/3114/7102/8588/Solicitud\\_para\\_Habilitacion\\_de\\_Establecimientos\\_V07-2016.pdf](http://www.senacsa.gov.py/application/files/3114/7102/8588/Solicitud_para_Habilitacion_de_Establecimientos_V07-2016.pdf)

<sup>49</sup> SENACSA, Requirements for Authorization of Ranches/Cattle Breeders Providing Cattle Destined for Export for Chile. Available: [http://www.senacsa.gov.py/application/files/3214/7102/7460/Check\\_List\\_para\\_Habilitacion\\_de\\_Establecimientos\\_V07-2016.pdf](http://www.senacsa.gov.py/application/files/3214/7102/7460/Check_List_para_Habilitacion_de_Establecimientos_V07-2016.pdf)



*de Inspección de Bovinos para Faena con Destino a Exportación*, or Official Inspection Certificate for Slaughtered Cattle Destined for Export).<sup>50</sup>

Minerva touts its relationship with its upstream supply chain in Paraguay. It notes that since its acquisition of Frigomerc in 2012, and the subsequent purchase and consolidation of the Friasa cold storage facility in January 2014, Frigomerc has taken the “pioneering initiative” of seeking closer relationships with breeders and producers, “creating bonds of trust between the company and its suppliers and opening space for dialogue, ideas, and information exchange through lectures and training.”<sup>51</sup>

IFC expectations regarding Minerva’s ability to implement supply chain management addressing environmental and social risks in the Paraguayan context are discussed in Finding 3.

### **The IFC Minerva Beef Project**

Minerva S.A. is one of the largest meatpackers in Latin America and, at the time of the IFC investment, was the second largest beef exporter in Brazil with a 22 percent market share of Brazilian beef exports.<sup>52</sup> According to a Minerva representative, the company entered the Paraguayan market in 2008. It acquired two existing (operational) slaughtering facilities in Paraguay before beginning implementation of the IFC Minerva Beef project.

The IFC investment is supporting Minerva’s business expansion in South America, including Paraguay. The PAD describes the project as an investment to:

- (i) construct/acquire five new slaughtering plants in total: two in the state of Mato Grosso (Brazil), one in Colombia, one in Paraguay, and one in Uruguay; (ii) lease six new build-to-fit distribution centers across Brazil; and (iii) expand the existing Barretos’ processing plant of ready to eat products (the Project).

Soon after implementation of the IFC Minerva Beef project began, Minerva entered into a long-term lease of a third slaughterhouse in Paraguay.

According to the PAD, Minerva’s total expansion consists of a US \$290 million investment over three years (mid-2013 to mid-2016). The proposed IFC investment consists of (i) an “A” (direct) loan of up to US \$60 million, and (ii) an equity investment of up to US \$25 million in common shares of the Company for a shareholding of up to 3.0 percent. The remaining project costs will be covered by various investors and private financial institutions.

The PAD states that IFC expects the project to have significant economic benefits through:

- 1) supporting the implementation of an environmental and social action plan that promotes sustainable cattle ranching and sets a benchmark for the rest of the industry; 2) supporting continued development of a company that has broad impact on local rural communities through employment of more than 10,000 staff and linkages to a network of 9,000 farmers in Brazil,

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<sup>50</sup> SENACSA, Products and Sub-products for Export to the Republic of Chile, Listadas. Available: <http://www.senacsa.gov.py/index.php/productos-y-subproductos/exportacion/republica-de-chile>

<sup>51</sup> Minerva press release (Spanish and English), undated. Available: <http://portal.minervafoods.com/en/about-us-frigomerc>; <http://live.minervafoods.com/es/presentacion-frigomerc>

<sup>52</sup> PAD p.i.

Paraguay and Uruguay; 3) contributing to global food security through a sustainable increase in beef production; and 4) promoting rural economic development in frontier regions.

### IFC Assessment of Environmental and Social Risks

The Environmental and Social Review Summary (ESRS) describes IFC's assessment of environmental and social risks and potential impacts. The ESRS identifies: 1) the environmental and social risk categorization and rationale; 2) the performance standards applied and the risk context related to each performance standard; 3) a table outlining the Environmental and Social Action Plan; and, 4) the approach to stakeholder engagement.

In response to a USAID request to receive the "complete version" of the environmental assessment conducted in Paraguay by IFC at appraisal,<sup>53</sup> IFC stated:

As with all investments, IFC's 'assessment' at appraisal included a number of activities: review of public and client confidential documents, interviews with project staff and stakeholders, and on-site visits to facilities to observe how the company's operations function in practice. The result of the assessment process are recorded in the [Environment and Social Review Document], which is an internal record, and summarized in the ESRS. As a result there is not a 'complete version' of the assessment. Given the fact that the plants in Paraguay were already in existence at the time IFC appraised the project, a full ESIA would not have been required, as is made clear in PSI para 7: *When the project involves existing assets, environmental and/or social audits or risk/hazard assessments can be appropriate and sufficient to identify risks and impacts* (emphasis in original).

Nonetheless, as part of Minerva's ESMS implementation, all environmental aspects and impacts, including [Occupational Health and Safety] hazards and risks have been identified, and appropriate management programs are being implemented to address these risks. IFC reviews these programs as part of its ongoing supervision activities...<sup>54</sup>

### 'Category A' Risk Classification

IFC classified this as a 'Category A' (highest risk level) project according to its environmental and social review procedure. The rationale for the classification is primarily due to potential risks and impacts from Minerva's primary supply chain in the Amazon and the Paraguayan Chaco.

IFC's rationale for the Category A classification in the PAD is quoted in full below.

This is a 'Category A' project according to IFC's environmental and social review procedure. As a result of Minerva's slaughtering activities in both Amazon and Chaco regions in South America, it was found that the potential risks and impacts of Minerva's supply chain's related issues with cattle suppliers could be significant, diverse and irreversible. The main environmental, health, safety, and social issues involved are the following: (i) occupational health and safety management in slaughtering activities; (ii) wastewater production, management, and discharge; (iii) hazardous materials safety (ammonia); (iv) food safety management and procedures; (v) animal welfare management; and (v) sustainability of beef cattle supply chain.

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<sup>53</sup> Communication from USAID to IFC, December 16, 2016.

<sup>54</sup> Communication from IFC to USAID, March 1, 2017.

In addition to the explanation in the PAD, IFC's rationale for the Category A classification in the ESRS is quoted in full below.

As a result of Minerva's slaughtering activities in both Amazon and Chaco regions in South America, it was found that the potential risks and impacts of Minerva's supply chain's related issues with cattle suppliers could be significant, that are diverse, irreversible and unprecedented. Issues include deforestation, child/forced labor, encroachment on Indigenous People land, and respect of customary rights by the Company's primary suppliers.

#### Additionality - The unique value of IFC

The PAD states that the project will facilitate Minerva's expansion into countries, including Paraguay, with weaker national safeguards and less access to information than Brazil, Minerva's primary base of operation. IFC acknowledges that this presents "high implementation risks and reputational exposure for both Minerva and IFC."<sup>55</sup> The 'additionality' of the IFC is therefore focused on supporting Minerva's sustainability agenda through environmental and social standards setting, improved communication with stakeholders, and advisory services. IFC notes that it is "uniquely positioned to support Minerva in the implementation of high environmental and social standards in its supply chain" and that "sustainability is a business driver for Minerva, which has scale for a meaningful demonstration effect."<sup>56</sup> The investment will support the implementation of an environmental and social action plan that will "set a benchmark for the rest of the industry."<sup>57</sup>

#### Application of Performance Standards

The Minerva Beef Project is covered by IFC's 2012 Sustainability Framework, including its performance standards and access to information policy. The performance standards (PS) applied to this project include:

- PS1 - Assessment and management of environmental and social risks and impacts;
- PS2 - Labor and working conditions;
- PS3 - Resource efficiency and pollution prevention;
- PS4 - Community health and safety and security;
- PS6 - Biodiversity conservation and sustainable management of living natural resources.

PS1, PS2 and PS6, their corresponding Guidance Notes (GN), and the January 2012 IFC Interpretation Note on Supply Chains<sup>58</sup> articulate client responsibilities regarding supply chain management.

PS1 GN53<sup>59</sup> outlines client responsibilities regarding assessment and mitigation:

The client should identify the roles, impacts and risks associated with its supply chain in relation to labor issues...and biodiversity, as defined in Performance Standard 2 and Performance Standard 6. Generally, where the client can reasonably exercise control, the client should collaborate with its primary suppliers to propose mitigation measures proportionate to

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<sup>55</sup> PAD p.1.

<sup>56</sup> PAD, p.2.

<sup>57</sup> PAD p.4.

<sup>58</sup> IFC. January 1, 2012. Interpretation Note on Supply Chains. Previously downloaded from IFC website; no longer available online.

<sup>59</sup> IFC Performance Standards are numbered 1 through 10 and are abbreviated as PS1, PS2, etc. Individual paragraphs of the Guidance Notes associated with each Performance Standard are numbered and are abbreviated as GN1, GN2, etc. Performance Standard 1, Guidance Note paragraph 53 is therefore abbreviated as PS1 GN53.

identified risks on a case-by-case basis, while recognizing that assessing and addressing supply chain implications beyond the first or the second tier suppliers may not be practical or meaningful to the client or the supplier.

PS2 para 27 states, “Where there is a high risk of child labor or forced labor in the primary supply chain, the client will identify those risks... . If child labor or forced labor cases are identified, the client will take appropriate steps to remedy them. The client will monitor its primary supply chain on an ongoing basis...”

PS2 para 29 states:

The ability of the client to fully address these risks will depend upon the client’s level of management control or influence over its primary suppliers. Where remedy is not possible, the client will shift the project’s primary supply chain over time to suppliers that can demonstrate that they are complying with this Performance Standard.

PS6 para 30 states:

Where a client is purchasing primary production...that is known to be produced in regions where there is a risk of significant conversion of natural and/or critical habitats, systems and verification practices will be adopted as part of the client’s [Environmental and Social Management System] to evaluate its primary suppliers. The 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...; 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. The ability of the client to fully address these risks will depend upon the client’s level of management control or influence over its primary suppliers.

The August 2013 IFC *Good Practice Handbook: Assessing and Managing Environmental and Social Risks in an Agro-Commodity Supply Chain*<sup>60</sup> provides good practice on how to identify and manage risks in primary supply chains. The IFC Handbook includes two toolkits: 1) Assessing environmental and social risk and leverage in a supply chain; and 2) Managing environmental and social risk in a supply chain. The Handbook summarizes client responsibilities with regard to the client’s level of leverage (i.e., the client’s level of management control or influence over its primary suppliers):

Where the IFC client has a high degree of leverage and influence [on its primary suppliers], the client is expected to effect change, if needed, with the producer. Where the client does not have leverage or influence and faces those risks in its supply chain, it should lower risk by changing suppliers as needed (p64).

PS2 and PS6 similarly define primary suppliers as “those suppliers who, on an ongoing basis, provide [the majority of living natural resources,] goods or materials essential for the core business processes of the project.”<sup>61</sup> In response to a USAID query regarding how IFC was defining ‘primary suppliers’ in the Paraguayan context and why, IFC provided the following response via email on March 1, 2017:

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<sup>60</sup> IFC (August) 2013. *Good Practice Handbook: Assessing and Managing Environmental and Social Risks in an Agro-Commodity Supply Chain*.

<sup>61</sup> See PS2 footnote 4 and PS6 footnote 21. The brackets identify words that are included in the PS 6 definition but not in the PS 2 definition.

Consistent with both the PS and Guidance Notes, IFC interpreted that: (i) primary suppliers are those suppliers who are directly providing cattle to Minerva as cattle are the ‘materials’ essential to the core business process of a slaughterhouse (which is a facility designed to process cattle into food); and (ii) primary suppliers are those that have a direct commercial relationship with Minerva, and by that definition are known to Minerva.

As described in Minerva’s ESRS, cattle supply chain is typically divided into three steps: breeding phase (0 to 9 months), calves raising (9 to 18 months) and final cattle raising (18 to 36 months). Most of Minerva’s primary suppliers are the final cattle raisers or, sometimes, they can be integrated calve/cattle raisers. That said, the reality is that within the beef cattle market in Brazil and Paraguay most, if not all, transactions are done through the spot market, which means that the slaughterhouse receives very limited information (or no information at all) on the origins of the cattle from the suppliers and therefore has equally limited (or no) leverage, control or influence over suppliers’ actions associated with breeding, raising or finishing cattle. Compounding difficulties with regards to Paraguay suppliers is the lack of publicly available information (which is available in Brazil.)

However, in contrast to the claim that large beef processors have little or no knowledge of their primary production input—cattle, this report finds (see background section on the Paraguayan cattle sector, supply chain, and traceability) that export-oriented beef processors typically have long-term relationships with cattle producers, and knowledge of the characteristics of the cattle they purchase, including upstream traceability information required by key export markets. Minerva also specifically points to its relationships with upstream suppliers in publicly available information. Challenges and opportunities for cattle supply chain traceability, large processor leverage over suppliers, and measures to mitigate or lower environmental and social risks are discussed in Findings 3 and 4.

#### Required Supply Chain Management Actions

The Environmental and Social Action Plan (ESAP) is included in the ESRS and is the only publicly disclosed material documenting the negotiated and binding agreement between IFC and Minerva regarding implementation of the performance standards. Table 1 quotes in full the portion of the ESAP titled “Supply Chain Management,” including due dates. USAID added the alphabetic labels to the items in the Table.

Table 1. Supply Chain Management (from ESAP)

a. Conduct a study to identify market opportunities for certified products, identifying market niches, developing specific products and marketing approaches. Provided that the study identifies specific market niches developing specific products and marketing approaches, Minerva will develop a Certification Pilot Program defining progressive targets to purchase certified Beef (SAN Standard of sustainable cattle).	Dec 2014
b. Implement a supply chain verification system in Paraguay in accordance with the Supply Chain Framework.	Dec 2015
c. Define specific selection criteria for suppliers in Paraguay.	Dec 2016
d. Minerva will collect public information on forced/child labor In Paraguay, based on available literature, public information and consultation with national labor authorities, and map the regions where they operate that are more likely to have harmful child labor	Dec 2015

as well as forced labor in supply chain.	
e. Minerva will establish criteria based on the mapped areas and collected information to limit procurement of suppliers are not (sic) enrolled in child/forced labor violations.	Dec 2016
f. Minerva will pilot a cattle traceability project incorporating existing...cattle purchasing criteria.	Dec 2015

The ESRS also states that Minerva “has committed to IFC to map out its primary cattle supply chain in Paraguay and progressively limit the procurement to suppliers that are not contributing to significant conversion of natural and/or critical habitats, or enrolled in forced/child labor violations.”

IFC staff confirmed to USAID that the ESAP is consistent with the PSI, PS2, and PS6 requirements referenced in the section above and as summarized in the IFC *Good Practice Handbook*. The status of required supply chain management actions is discussed in Finding 2.

### Stakeholder Engagement

PSI para 25 describes stakeholder engagement as “the basis for building strong, constructive, and responsive relationships that are essential for the successful management of a project's environmental and social impacts... The nature, frequency, and level of effort of stakeholder engagement may vary considerably and will be commensurate with the project’s risks and adverse impacts, and the project’s phase of development.” PSI GN92 states that “Performance Standard I requirements are focused on engagement with Affected Communities, who are defined as any people or communities located in the project's near geographical proximity, particularly those contiguous to the existing or proposed project facilities who are subject to actual or potential direct project-related risks and/or adverse impacts on their physical environment, health or livelihoods.”

IFC’s discussion of affected communities in the ESRS focused on direct impacts at the slaughterhouses, feedlots and distribution center, while also noting further requirements with respect to stakeholder engagement. Based on the appraisal visit to Minerva’s facilities, IFC determined that:

...there are no identified communities with potentially significant adverse impacts as a result of the slaughterhouses, feedlots or distribution centers. As a result, the client will not need to conduct Informed Consultation and Participation (ICP). However, as set forth in the ESAP, the client will be asked to develop and implement a detailed Stakeholder Engagement commensurate with the level of project risks and impacts, which are expected to be limited in scope, few in number and generally site specific, largely reversible and readily addressed through mitigation measures.<sup>62</sup>

A commitment to conduct stakeholder engagement commensurate with the level of project risks and impacts is not, however, included in the ESAP and there are no publicly available documents describing how or if any process occurred. IFC staff confirmed to USAID that stakeholders potentially adversely impacted through the primary supply chain—including indigenous peoples—were considered indirectly impacted and thus not required to be included in stakeholder engagement. Similarly, IFC staff explained

<sup>62</sup> IFC Minerva Beef Project Environmental and Social Review Summary Section on PS 6.  
<http://ifcextapps.ifc.org/ifcext/spiwebsite1.nsf/78e3b305216fcd8a85257a8b0075079d/4627ff31488cb32685257b3d00583091?opendocument>

that PS7 on indigenous peoples was not applied to this project because “based on the Social Specialist’s assessment of the company’s facilities, company documents reviewed and discussions with company management, PS7 was found not to be applicable as the project’s operations do not have direct adverse impacts on IP communities or lands.”<sup>63</sup>

IFC staff further explained that some local indigenous peoples groups have been consulted, and that the stakeholder mapping and potential engagement in broader sector discussions mentioned in the ESRS are underway. The inclusiveness of stakeholder engagement is discussed in Finding I.

## **U.S. Government Recommendations (May 2013)**

As part of the typical U.S. Government interagency review process for MDB projects, prior to the Executive Directors Board consideration of the IFC Minerva Beef Project in May 2013, USAID reviewed the environmental and social aspects of the proposal and provided recommendations to the U.S. Department of the Treasury.

Based on the interagency review of the Minerva Beef project, the United States abstained for two reasons. First, the proposal did not meet the United States’ legislative requirements for timely disclosure of environmental impact assessments. The second reason is quoted in full below.

Secondly, the proposal does not require the timely implementation of measures to mitigate environmental impacts. Minerva’s environmental and social action plan does not require implementation of relevant IFC Performance Standards for all its investments in Uruguay or Paraguay until December 2015. Although the United States recognizes it is not uncommon for an IFC client to come in to compliance with these policies post-Board approval, the United States believes that, given the project’s inherent social and environmental risks, a two and one-half year implementation period for compliance is too long.

In addition to the formal statement submitted by the U.S. Executive Director (attached in Annex 2), during the Board meeting, the Office of the U.S. Executive Director orally conveyed two specific recommendations that were particularly important to USAID.<sup>64</sup> These were:

1. To encourage additional efforts by the IFC and World Bank to work with the government and private sector to support traceability and certification programs with secondary and tertiary suppliers in a timely manner to ensure the sustainability of the entire supply chain and further reduce deforestation; and
2. To encourage the World Bank to actively engage in the Chaco indigenous peoples issues as part of their country development strategy in order to protect the interests and traditional territories of indigenous peoples in order for them to maintain their livelihoods.

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<sup>63</sup> IFC communication to USAID, March 1, 2017.

<sup>64</sup> USAID’s 2013 review of the IFC Minerva Beef Project is summarized in USAID’s October 2013 semi-annual report to Congress, “Multilateral Development Bank Assistance Proposals Likely to have Adverse Impacts on the Environment, Natural Resources, Public Health, and Indigenous Peoples.” See: <http://gemini.info.usaid.gov/repository/mdb/2013O.pdf>

## Findings

### 1. Despite known risks and potential adverse impacts in cattle supply chains, indigenous peoples and others potentially adversely impacted through Minerva's primary supply chain in Paraguay have not been explicitly included in stakeholder engagement to date

The risks and potential adverse impacts to indigenous peoples and others through Minerva's primary supply chain were well known at appraisal and were part of the primary justification for the Category A classification of the project (along with deforestation risks). USAID finds that the scope of stakeholder engagement in the Minerva Beef project to date has not been commensurate with the project's known risks and potential adverse impacts to indigenous peoples and others through Minerva's primary supply chain in Paraguay. These risks and potential adverse impacts warranted their explicit inclusion in stakeholder engagement and the application of Performance Standard 7 on Indigenous Peoples.

Although some local indigenous peoples groups have been consulted, and the Environmental and Social Review Summary discusses Minerva's plans for stakeholder engagement, including stakeholder mapping and potential engagement in broader sector discussions, and mapping is reportedly underway, consultations have not yet been held with these broader populations in the Paraguayan Chaco.

### 2. Minerva is making progress towards supply chain management; however, the company has not yet mitigated or lowered environmental or social risks

Through April 2017, Minerva has collected and analyzed publicly available spatial information on protected areas, indigenous peoples' lands, and recent deforestation to identify high risk districts (sub-departmental administrative units). Minerva has also collected and analyzed publicly available information on child labor and forced labor; however, the lack of geographical data or data specifically identifying suppliers not engaged in forced/child labor prevented Minerva from mapping or thoroughly analyzing child/forced labor risks.

Minerva's progress regarding supply chain management is noteworthy. However, these efforts have not yet mitigated supply chain impacts in Paraguay. Mitigation of supply chain impacts would involve working with primary suppliers to: 1) remedy identified cases of child/forced labor; and/or 2) prevent significant conversion and/or degradation of natural and critical habitat. If Minerva's influence or control over its primary suppliers was not sufficient to mitigate supply chain impacts in the manner described above, the expectation, as described in the ESRS, is that Minerva lower risk by "progressively limit[ing] procurement to suppliers that are not contributing to significant conversion of natural and/or critical habitats, or [engaged] in forced/child labor violations."

The first purpose of USAID's monitoring review is to determine the degree of incorporation and effectiveness of U.S. Government recommendations. As of April 2017—nearly four years after approval of the project—the supply chain analyses mandated in the ESAP have not yet been applied to mitigate supply chain impacts in Paraguay or to lower risks by progressively limiting procurement to suppliers that are not contributing to significant conversion of natural and/or critical habitats, or engaged in forced/child labor violations. This is well beyond the two and one-half year implementation timeline about which the United States expressed concern in its position statement. This finding suggests that U.S. Government recommendations were highly relevant, but that they were not incorporated into or effective at influencing the implementation of the project.



3. The Paraguayan context poses challenges regarding supply chain management; however, a foundation of supply chain traceability among large export-oriented processors and producers exists on which environmental and social criteria can be applied

IFC staff explained that the lack of environmental and social risk mitigation in the supply chain is due to the challenging and dynamic context in Paraguay and not due to a lack of effort or changing priorities on the part of either IFC or Minerva. Compared to Brazil (Minerva's base of operation), Paraguay has a weaker legal and regulatory framework and enforcement capabilities, a less coordinated public-private sector forum to promote sector-wide reform, and less access to spatial, disaggregated or otherwise useful environmental and social information for supply chain mapping. Two challenges of particular importance are the ability to identify suppliers not engaged in forced/child labor and the ability to map indigenous lands traditionally owned or under customary use.

There exists within Paraguay, however, a foundation of traceability, especially among large beef processing exporters such as Minerva, that illuminates characteristics of and connections among cattle producers and processors. This is especially the case for cattle producers from whom beef processing exporters purchase, given national zoosanitary requirements and the requirements of important export markets. With concerted efforts to generate environmental and social information and develop more precise environmental and social criteria, these criteria could be applied by Minerva and IFC to the existing foundation of traceability to mitigate or lower supply chain risks. This principle of addressing environmental and social risk management by building on existing systems of traceability is emphasized throughout the *IFC Good Practice Handbook: Assessing and Managing Environmental and Social Risks in an Agro-Commodity Supply Chain*.

4. IFC's assessment prior to Board approval may not have sufficiently assessed Minerva's capacity for environmental and socially sustainable supply chain management in the dynamic Paraguayan context

IFC's investment in Minerva's expansion into Paraguay is premised on the ability of Minerva to go beyond existing industry practice in Paraguay to apply sustainable environmental and social practices, especially regarding supply chain management. The PAD, ESRS, and ESAP include three critical assumptions regarding Minerva's ability to implement environmentally and socially sustainable supply chain management in Paraguay: 1) that Minerva either has or would be able to quickly gain sufficient leverage over primary suppliers in order to effect change among them regarding environmental and social management practices; 2) if Minerva does not have or cannot quickly gain sufficient leverage, that Minerva has access to alternative suppliers whose practices meet IFC standards; and 3) that implementing supply chain management practices consistent with the IFC performance standards would not be counter to the financial interest of Minerva. None of these critical assumptions has yet borne out.

In addition to the challenges to supply chain management in the Paraguayan context mentioned above, IFC and Minerva staff described two emergent challenges: 1) the expansion of other large beef processors in Paraguay, including a main competitor to Minerva; and 2) less than anticipated progress towards industry-wide environmental and social standards for supply chain management to which other beef processors would be required to follow. Regarding the second challenge, Minerva staff emphasized that without industry-wide standards (or at least the commitment of Minerva's competitors to standards), Minerva's efforts to mitigate supply chain risks or lower risks by shifting suppliers would put Minerva at a competitive disadvantage in the Paraguayan market.

IFC staff explained that their assessment at appraisal investigated issues related to the three critical assumptions. The PAD and ESRS, however, contain limited information describing IFC's investigations, their findings, or how the project might adaptively manage change. Based on these public documents and conversations with IFC staff, it appears that IFC's assessment of these critical assumptions prior to Board approval was not proportionate to their level of importance.

5. IFC's investment in Minerva is not providing the intended industry benchmark and demonstration effect; however, IFC and Minerva have taken recent steps towards broader industry change

Beyond expanding Minerva's operations and supporting the company's environmental and social management systems, the IFC Minerva Beef project was conceived to influence supply chain management in Paraguay's cattle industry more broadly. Minerva's slower-than-expected pace in mitigating or lowering supply chain risks has meant that, thus far, Minerva has not provided the intended demonstration effect or industry benchmark for others to strive towards.

Minerva and IFC have taken steps, however, towards a more sector-wide approach that may affect broader change. This includes IFC and Minerva active participation in the Forest Conservation Agriculture Alliance, a collaboration including conservation NGOs, a private cattle cooperative, a sub-national government association and USAID to promote sustainable cattle production in Paraguay, especially the Chaco region. IFC's Manufacturing, Agribusiness, and Services Advisory team recently initiated an Advisory Services initiative aiming to support the development of Paraguayan beef ranching sustainability principles, work with banks and regulators to enable responsible financing of cattle production in the Chaco, and support improved traceability and transparency in the cattle sector generally and with Minerva specifically. Finally, related to these initiatives, Minerva and IFC are participating in the Paraguay-level Global Roundtable for Sustainable Beef.

## **Recommendations**

1. Implement the mitigation and risk-reducing measures required in the performance standards in a reasonable, established timeframe

In conversations with USAID and other U.S. government agency staff, IFC staff noted that while the ESAP included hard deadlines (all of which have passed), the performance standards provide flexibility in terms of the timing of implementation. Specifically, PS2 and PS6 state that the responsibility of a client to shift suppliers in response to social and environmental concerns will occur "over time" or "progressively."

While many of the challenges hampering Minerva's efforts to mitigate or lower supply chain risks persist, USAID recommends that IFC work with Minerva to establish and disclose new deadlines to implement the supply chain management risk mitigation and risk reduction requirements of the performance standards, and regularly update public information on Minerva's implementation. Maintaining open-ended timeframes for implementing these standards further exposes IFC and Minerva to implementation and reputational risk and diminishes the authority of IFC's performance standard requirements for supply chain management.

2. Use new, publicly available data to map child labor in Minerva's supply chain in Paraguay

USAID, on the suggestion of the U.S. Department of Labor, recommend that Minerva work with the Government of Paraguay to map child labor in its supply chain by using recent and publicly available data. In September 2016, the Government of Paraguay published results from the 2015 Survey of

Activities of Rural Area Children and Adolescents (EANA Rural 2015), conducted by the Government of Paraguay's national statistical office (DGEEC) with technical assistance from the International Labor Organization. Paraguayan government officials, including the Minister of Labor, participated in the EANA report's release event.<sup>65</sup>

The EANA Rural 2015 identified 384,677 children engaged in child labor in agriculture, including 142,127 children ages 5 to 17 engaged in child labor in the cattle sector. The EANA report can be accessed through the DGEEC website.<sup>66</sup> The EANA Rural micro-dataset is available with necessary documentation.<sup>67</sup> These data can be disaggregated in the departments of San Pedro, Caaguazu, and Itapua, which could be useful for mapping some child labor in Minerva's supply chains. Disaggregation is not yet possible in the departments in the Paraguayan Chaco.

There are several toolkits available to assist businesses in reducing child and forced labor in their supply chains. These include the IFC's "Good Practice Handbook: Assessing and Managing Environmental and Social Risks in an Agro-Commodity Supply Chain," and the U.S. Department of Labor's "Reducing Child Labor and Forced Labor: A Toolkit for Responsible Business" (also available in Spanish and Portuguese).<sup>68</sup>

### 3. Expand recent efforts towards sector-wide change in cattle supply chain management in Paraguay, including multi-donor initiatives and cumulative impacts analyses

As noted in Finding 5, IFC and Minerva are taking positive steps towards broader industry change regarding environmental and social standards in supply chain management in Paraguay. IFC is encouraged to coordinate with other parts of the World Bank Group, and potentially other multilateral and bilateral donors, to work closely with the Government of Paraguay, other industry actors, indigenous peoples' organizations and other stakeholders to address the links between cattle production, deforestation, land tenure, indigenous peoples' rights, labor practices, and protected area management. This coordinated effort could involve supporting the Government of Paraguay in completing a cumulative impacts assessment of the cattle industry and include robust engagement of stakeholders, especially indigenous peoples and others in the Paraguayan Chaco who are potentially adversely impacted through the cattle supply chain.

Further, the Paraguayan Roundtable on Sustainable Beef, in which IFC and Minerva are now actively participating, could aim to promote the Sustainable Agricultural Network's (SAN's) certification standard for sustainable beef. In addition to environmental standards, SAN's standards include social and labor standards.<sup>69</sup>

### 4. Upgrade and integrate web-based loan portfolio information from donors to facilitate cumulative impacts assessments

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<sup>65</sup> <http://www.mtess.gov.py/index.php/noticias/el-ministro-del-trabajo-acompano-presentacion-estadistica-del-trabajo-infantil-en-el-sector-rural>

<sup>66</sup> [http://www.dgeec.gov.py/Publicaciones/Biblioteca/eana\\_rural/EANA%20RURAL%202016%20\(10.10.16\).pdf](http://www.dgeec.gov.py/Publicaciones/Biblioteca/eana_rural/EANA%20RURAL%202016%20(10.10.16).pdf).

<sup>67</sup> <http://www.ilo.org/ipecinfor/product/viewProduct.do?productId=28715>.

<sup>68</sup> U.S. Department of Labor, Bureau of International Labor Affairs. Reducing Child Labor and Forced Labor: A Toolkit for Responsible Business. Available: <https://www.dol.gov/ilab/child-forced-labor/>

<sup>69</sup> See for example: SAN, General Interpretation Guide Standard for Sustainable Cattle Production Systems, [http://www.san.ag/biblioteca/docs/SAN\\_GIG\\_Cattle\\_Standard\\_February\\_2013.pdf](http://www.san.ag/biblioteca/docs/SAN_GIG_Cattle_Standard_February_2013.pdf) and <https://ccafs.cgiar.org/blog/examining-new-sustainable-beef-production-certification-brazil#.WROppsaIvyQ>

Complementary to recommendation 3, IFC should coordinate with other donors to upgrade and integrate the databases geo-referencing loan portfolios in order to highlight potential cross-sectoral cumulative impacts and to facilitate cumulative impact assessments.

## **Annex I. Case study: Ayoreo-Totobiegosode unresolved land claim**

The Ayoreo-Totobiegosode peoples exist in two groups, one settled in the communities of Chaidi and Arocojnadi and another, Jonoine-Urasade, living in voluntary isolation. Their traditional lands were previously acquired by government and then sold to private owners around the 1930s. The Ayoreo-Totobiegosode have been claiming 550,000 hectares of their traditional lands in the Alto Paraguay Department in the Chaco since 1993. Through a formal resolution of the Ministry of Education and Culture (Resolution 1/2001) and ratified by the National Secretariat for Culture through Resolution 491/2009, the Ayoreo-Totobiegosode requested that the lands in question be declared the “Tangible and Intangible Natural and Cultural Heritage Lands of the Ayoreo and Totobiegosode.” The lands were also made part of the El Chaco Biosphere Reserve seemingly providing further protection from privatization and deforestation. The Ayoreo-Totobiegosode, however, only acquired formal title to 120,000 hectares of these lands. More recently, INDI has been working with the Ayoreo-Totobiegosode to gain title over an additional 18,000 hectares. However, according to representatives of the Ayoreo-Totobiegosode, INDI is now selling the land to private investors because the Ayoreo-Totobiegosode could not pay the legal fees to process the title.

The vast majority of the lands claimed by the Ayoreo-Totobiegosode and recognized by the government are under private control, including large foreign-owned cattle ranches. The Secretary for the Environment has issued environmental permits for cattle production, forestry and oil exploration on the claimed lands. According to the Ayoreo-Totobiegosode, this was done without consulting the communities involved.

Members of the Ayoreo-Totobiegosode explained that clearing on these lands in 2004 strained the livelihoods of community members living in voluntary isolation such that it forced some members to leave the diminishing forest to settle in communities along the perimeter of the Ayoreo-Totobiegosode titled land. Representatives of the Ayoreo-Totobiegosode also explained that, more recently, new fences and an increasing presence of armed guards protecting private cattle ranches is restricting their access to their traditional resources, including places of cultural significance.

In mid-2016, in response to encroachment onto the lands for which members of the settled community have title (including outsiders bulldozing roads), the Ayoreo-Totobiegosode established a third settlement to serve as a guard post to defend their lands against further encroachment. The Ayoreo-Totobiegosode had taken similar actions in 2008 and 2010 in response to land encroachment. Community members expressed little hope that the government of Paraguay would act in their interests without external pressure.

## **Annex 2. U.S. position and recommendations regarding the Minerva Beef Project, May 2013**

The United States would like to thank IFC staff for their extensive engagement with our office ahead of this proposed investment. Our conversations gave us the opportunity to understand better how IFC has worked with this client to design an investment in a controversial sector.

The United States would like to highlight some of the mitigating measures IFC staff has incorporated into this investment. This includes: the use of geographic information systems; consideration of biodiversity conservation; indigenous people's land rights; and controls against slave labor. Minerva goes further to integrate its supplier database into nation-wide supplier verification systems, which significantly contributes to the sustainability of this sector. The United States also appreciates Minerva's adherence to Brazilian federal beef programs, the moratorium on Amazon beef, and prohibition on purchases of beef from suppliers whose land tenure rights are not valid or who use child labor.

Nevertheless, the United States requests to be recorded as abstaining on this proposed investment for two reasons: First, as a Category A project, this proposal does not meet the United States' legislative requirements for timely disclosure of environmental impact assessments.

Secondly, the proposal does not require the timely implementation of measures to mitigate environmental impacts. Minerva's environmental and social action plan does not require implementation of relevant IFC Performance Standards for all its investments in Uruguay or Paraguay until December 2015. Although the United States recognizes it is not uncommon for an IFC client to come in to compliance with these policies post-Board approval, the United States believes that, given the project's inherent social and environmental risks, a two and one-half year implementation period for compliance is too long.

### **Annex 3. IFC Response to the USAID Monitoring Report, June 19, 2017**

First of all, we want to thank you for the time and effort you and the USAID team have invested to understand IFC's engagement with Minerva, and, in particular, the nature of Minerva's activities in the Paraguay beef supply chain.

Since IFC's investment in Minerva, we have been very engaged with the company. Through our partnership with them, we feel we have helped them achieve significant progress with regards to sustainability within the various countries in which they operate. As you rightly observed and commented upon in the report, Paraguay's cattle supply presents a complex operating environment, where improvements may not always manifest themselves as expected. As such, over the past couple of years, it has proven more difficult for Minerva to implement our originally envisaged action plan in Paraguay. As also noted in your review, IFC continues to work with the company and other partners, including of course USAID, to try and tackle those challenges so as to make a difference at the sector level and within Minerva's operations.

We remain hopeful that, with the support of USAID, WWF, the Paraguayan authorities and others, we will be able to see significant progress towards sustainability in the beef supply chain in Paraguay.

#### **Annex 4. Minerva Response to the USAID Monitoring Report, June 29, 2017**

Sustainability has been part of all of Minerva Foods' activities since the beginning, being also a part of the Company's business strategy. The theme has matured significantly in the past years, culminating with the establishment of the Corporate Sustainability Department and more recently with IFC partnership.

Supply chain management is a core strategy for our operations and maintaining a solid relation with our cattle suppliers, leverages the application of our commitment with sustainability, even in a complex operating environment. In Paraguay, we created a metric to classify municipality risks, in which is included Indigenous Lands, Protected Areas and deforestation polygons. 100% of our 2016 purchases were screened in our monitoring system and classification is ongoing on 2017.

We remain supporting sustainable actions for cattle ranching in Paraguay, reinforcing our commitment with sectorial projects and hoping for a more transparent business environment.