



# ENVIRONMENTAL AND SOCIAL IMPACTS

OF IDB INVEST AND IFC  
INVESTMENTS IN  
PRONACA'S SANTO  
DOMINGO DE LOS  
TSÁCHILAS OPERATIONS  
IN ECUADOR:

*A Case Study on  
Community Impacts,  
Policy Failures and  
Recommendations*

# Introduction

This case study, based on [this more detailed report](#), documents significant historical and current negative environmental and social impacts of PRONACA's factory farms and slaughterhouses on the Indigenous and other communities and natural resources of Santo Domingo de los Tsáchilas, a province west of Ecuador's capitol, Quito. PRONACA (Procesadora Nacional De Alimentos C.A.) is a long-time client of the Inter-American Development Bank (IDB) and the International Finance Corporation (IFC), two public development banks that are supposed to advance equitable, sustainable development in a manner that protects natural resources. Unfortunately, as this case study and the more detailed report shows, both banks have failed to effectively apply key Environmental and Social Performance Standards (PS) as their policies require—exposing these impoverished, directly affected communities to the negative environmental, health and economic impacts of PRONACA's operations, including the pollution of air, soil and water, disruptions of local tourism, and the destruction of livelihoods.

PRONACA is Ecuador's fourth largest corporation, with revenues of US\$961.6 million in 2021, primarily from the production, processing and sales of pork and poultry products. Since 2004, IFC has provided PRONACA with \$170 million in loans, including \$50 million in December 2021. In 2013, IDB Invest provided \$10 million and mobilized an additional \$32 million for PRONACA's operations, and in 2021, IDB Invest made its second loan to the company, providing \$50 million to "Increase chicken and swine production," and other activities. As this case study and the detailed report documents, these loans violate several of the banks' policies and are contributing to significant ecological and social harm.

CEDENMA, a non-governmental organization that brings together 52 environmental organizations in Ecuador, is deeply concerned that the IFC and IDB Invest's recent loans to expand PRONACA's polluting factory farms create new threats to ground and surface water, air and soil resources, animal welfare, and the health and well-being of downstream communities, especially the Indigenous peoples of Santo Domingo province. We hope this case study and broader report helps IFC and IDB Invest—as major financiers of PRONACA's operations—to deepen their knowledge and accept responsibility for the impacts of their investments and take appropriate measures to address and mitigate them.

# Historical Impacts Left Unaddressed

Since 1998, the region's inhabitants, including members of Indigenous communities, have filed numerous complaints about PRONACA's pig and poultry operations with local and national governments. This includes a 2008 lawsuit against the company regarding water pollution, loss of territory, and health and safety concerns related to the installation of biogas digesters in the communities of Puerto Limón, Valle Hermoso, San Gabriel del Baba and Peripa.

Although the court rejected the community's request to halt construction of the digesters, the court found significant merit in the environmental complaints and ordered the establishment of a commission to monitor PRONACA's activities, with particular focus on waste disposal and water use. Unfortunately, the court order was never implemented. In addition to this lawsuit, community members filed a complaint with the IFC's Office of the Compliance Advisor/Ombudsman (CAO), alleging "foul odor emanating from the pig farms;" "pollution of water sources, soil and air;" "lack of proper environmental licensing;" "health issues" and ecological harm to area forests. While the CAO visited the community and found merit in the accusations and evidence of "a variety of non-compliances with IFC/World Bank Group guidelines," it did not recommend any specific change in PRONACA's operations. Instead, the CAO found that "improvements can be made in PRONACA's reporting of data to IFC in order to provide IFC full assurance that operations are in compliance with applicable IFC guidelines."

"My father has fought for 25 years against PRONACA. Yes, PRONACA has divided the community. The people think differently than the local authorities. PRONACA buys the local authorities, pays bribes. Many people who fought with him have lost faith, they want to stay quiet now, PRONACA is a very powerful company economically and also politically with respect to the authorities."

*Anonymus*

*Source: Provincial Government of Santo Domingo de los Tsáchilas, 2022.*





# Harmful Impacts Continue



More than ten years later, based on interviews and extensive surveys with impacted communities, CEDENMA is concerned that the banks' loan preparation process did not sufficiently ensure that PRONACA has or will adequately address the documented harms of its operations, including air and water pollution and related human illnesses. Neither bank has ensured that the company carry out stakeholder consultations with Indigenous communities, a clear violation of each institution's Indigenous peoples policy.

The economic, cultural and health impacts of water pollution are of paramount concern. PRONACA's operations discharge their waste directly into the Pove, Peripa, and Chigüilpe rivers, causing contamination of waterways that local communities have historically used for hygiene, drinking, and fishing. PRONACA's factory farms deposit solid waste (excrement) as fertilizer in areas close to these communities and may pollute groundwater. For communities settled along the Pove, Peripa, and Chigüilpe rivers, water is linked to life and subsistence itself (bathing, washing, cooking, etc.), and to agricultural production. While the Peripa community has traditionally derived its food and economic security from fishing and agriculture, and more recently tourism, the Peripa River has deteriorated to the point that the community can no longer rely on it for any of its traditional uses or tourism.



## Health Impacts

In 2014, there were higher rates of stomach, lung and skin cancer in this region than in other provinces with similar characteristics that do not have factory farms or slaughterhouses. While more studies are needed to determine PRONACA's precise role in directly causing these harmful health and water impacts, the testimonies of Tsáchila villagers and residents suggest a strong correlation between the documented water pollution, health declines and PRONACA's operations.

"What it has caused us is the destruction of the river and our beautiful place, you can no longer fish, you can no longer use the river... ..It affected us a lot in my work in tourism."  
*Maria Calazacon, local indigenous resident*

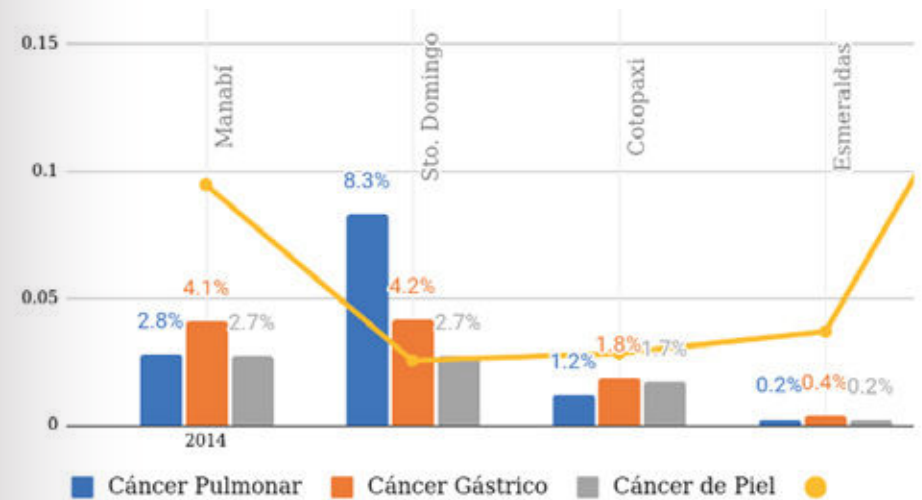


Figure 2: Lung, gastric and skin cancer rates in four similar provinces of the country.  
 Source: INEC/ENSANUT 2014

A review of bank and government documents as well as interviews and surveys with local communities confirmed the following regarding the Banks' loan preparation process:

### **Failure to provide information**

Local communities close to PRONACA's pig and poultry operations in Peripa and Chigüilpe that are planned for expansion have no knowledge of the company's plans, despite bank policies that require disclosure and dissemination "of relevant environmental and social information to stakeholders." Requests from NGOs for this information have gone unanswered for more than a year.

### **Failure to consult**

Indigenous communities living next to PRONACA operations were not informed or consulted about these new operations as required by Ecuadorian law and bank policies, even though it seems clear from the limited information provided in bank documents that their investments will increase harmful impacts on the community and natural resource base due to the increased numbers of animals raised and slaughtered.

### **Failure to consider court filings or residual impacts**

In preparing these new loans, neither IFC nor IDB Invest appeared to take into account the company's inaction around the 2009 court ruling establishing a commission to monitor and document PRONACA's environmental impacts. Nor did they take sufficient action to assess PRONACA's significant residual impacts on the environment and health of surrounding communities. PRONACA has still not provided evidence that it has sufficiently addressed problems documented in the 2008 lawsuit and judgement against the company.

### **Failure to ensure new licenses for expansion activities**

Based on information requests to Ecuadorian authorities, it appears that PRONACA has not sought any new environmental licenses for its expansion activities in the Province of Santo Domingo, even though IDB documents mention that these expansions will likely require new licenses.

Below we provide further details about these and other concerns about the banks' failures to ensure proper application of their performance standards. We also include recommendations to the banks and Ecuadorian authorities regarding ways to address the problems that are documented in detail in the full report.



## **Failure to Properly Apply Bank Performance Standards**

### **Failure to Apply PS1: Assessment and Management of Environmental and Social Risks and Impacts**

Banks failed to provide meaningful information on their investments. Despite repeated requests, neither IFC nor IDB Invest has shared critical information about the scope or location of PRONACA's proposed expansion of feed mills, pig farms or pork and poultry processing facilities. This prevents impacted communities or others from understanding how this IFC-supported expansion is likely to affect the local environment (including land, air and water) and public health.

### **Banks failed to address residual impacts**

Rivers downstream from PRONACA's operations, which communities previously relied on for their livelihoods, are no longer usable today. The company has failed to address these and other significant residual impacts on the environment and surrounding communities, as required under PS1.

### **Banks failed to engage external stakeholders**

The lack of any engagement process with community stakeholders—as required by their own policies—has left impacted communities with no means of dialogue or voicing complaints. Despite the documented negative impacts on PRONACA's operations on local communities, IFC claimed in its impact report that "Broad community support was not applicable..." IDB Invest similarly denied its obligation to engage with stakeholders, claiming in its project documents that PRONACA's "corporate communication allows open and ongoing dialogue with its stakeholders." A meaningful engagement process would have made the Banks aware that there had been no action by a court-ordered commission established more than a decade ago to oversee PRONACA's implementation of remedial actions for its earlier environmental failures. The banks would also have had to address the fact that decades-old concerns about the impacts of air and water pollution on local tourism, culture and public health had not been mitigated.

## **Banks failed to ensure that PRONACA met all national legal environmental requirements**

Per Article 176 of Ecuador's Environmental Organic Code, PRONACA's expansion activities should require additional licensing and environmental impact assessment, inclusive of citizen consultation.—Yet NGOs' research has revealed that there is no new licensing or EIA in process. As PRONACA expands production with the banks' funding support, the company appears to still not complying with Ecuadorian laws.

## **Concerns with the Application of PS3: Resource Efficiency and Pollution Prevention**

Air, Land and Water Pollution Tied to Waste Management. There is no evidence that PRONACA evaluated the land's ability to absorb the impacts of the expected number of animals following expansion. To the extent that PRONACA has made or planned pollution management improvements in its operations, these should be tested and monitored for efficacy and the plans and results shared with stakeholders.

## **Greenhouse gas (GHG) emissions**

PRONACA has implemented measures to reduce energy consumption in its owned facilities. However, consistent with the industry, the majority (as high as 90%) of PRONACA's GHG emissions are likely Scope 3 [i.e., value chain emissions], which will not be reduced by any energy-related measures in the company's owned operations. IFC has indicated that PRONACA reports on its Scope 1-3 emissions. But PRONACA reports only its emissions intensity (CO<sub>2</sub>e/ton of production), so it is not clear whether the company includes all sources, and thus its actual emissions.

## **Odorous emissions have not been mitigated**

Odorous emissions have long been and continue to be among the negative impacts from PRONACA's intensive pig and chicken farming and slaughter operations. These harmful impacts must be addressed and mitigated.

## **Water consumption**

PRONACA works to increase its reuse of treated water. However, the use of water in PRONACA's factory farms and slaughterhouses represents a tiny fraction of the company's water consumption. Most water use in PRONACA's livestock supply chains occurs during feed production, such as growing corn. Mitigation of PRONACA's water consumption, as required by PS3, must take feed production into account.

## **PS4: Community Health, Safety and Security**

The testimony of many residents of Santo Domingo de los Tsáchilas shows that PRONACA's operations have negatively—and severely—affected thousands of community residents for many years. The company's Environmental & Social Action Plan contains nothing to address downstream, downwind and other water, air and soil contamination and impacts. This is a prima facie failure to apply PS4 and deserves immediate follow-up with PRONACA by IFC and IDB Invest, as well as corrective measures added to the ESAP.

## **Failure to Effectively Apply PS6: Indirect Supply Chain Impacts**

PRONACA purchases 29% of Ecuador's yellow corn supply, spending \$104 million annually on feed for its livestock. This corn, often produced as a monoculture, depletes soil and water resources, diverting valuable water and land resources away from food production directly for people. PRONACA's expansion is likely to increase harmful deforestation, as agricultural expansion (for both animals and crops) is a main driver of deforestation—a major source of climate change—in Ecuador. While PRONACA's "Sustainable Supply Chain Policy" commits to "minimizing the [supply chain's] impact on climate change," there is no monitoring or verification process. Nor are there any requirements that the company or its feed suppliers disclose or reduce their full GHG emissions or address biodiversity or ecosystem impacts. Thus, there is no assurance that PRONACA is complying with PS6 requirements to avoid or minimize conversion of natural or critical habitats or other impacts on high biodiversity areas.



## Failure to Apply Performance Standard 7: Impacts on Indigenous Peoples

The banks' failure to ensure any consultation process or information dissemination among affected Indigenous communities is a clear violation of PS 7 and the Constitution of Ecuador, which confers specific rights for Indigenous people to be fully consulted and compensated for any damage inflicted on their communities. IFC and IDB Invest have failed to ensure this mandated engagement process with affected Indigenous communities of Peripa and Chigüilpe. Indeed, PRONACA has not held a single participatory event to inform, let alone consult or seek consent of the communities about the company's expansions.

While IDB Invest acknowledged the relevance of PS7 for its loan, it merely specified that "the selection of land for the new project operating will seek to not negatively impact Indigenous peoples," and that "if this is not possible, PRONACA will address the issue with a Procedure for the Treatment of Indigenous Peoples." However, our research shows there has been no respect for the collective rights of the Indigenous people that border PRONACA's plants, either in process or substance.

## Banks' Possible Misclassifying of PRONACA Investments as Category B

Based on the information collected in the community, CEDENMA believes that the banks' recent loans meet the criteria for a Category A risk rating and the attendant risk management and disclosure requirements. This is based on the cumulative, persistent and in some cases irreversible environmental, economic and public health impacts related to air and water pollution, water depletion, GHG emissions, and loss of traditional livelihoods associated with PRONACA's operations.



## Recommendations for Future Actions

In addition to addressing failures related to the performance standards, this report addresses PRONACA's failure to comply with Ecuadorian law and a 2009 ruling by Ecuador's Constitutional court on PRONACA's violation of the rights of nature. Given that PRONACA, the banks and government authorities have neglected their own policies that call for genuine stakeholder participation, informed consent, transparency and accountability, this report urges the following actions:

## Recommendations to IFC and IDB Invest

### Greater disclosure of information

IFC and IDB Invest must require PRONACA to disclose the following information in accessible forms, to "ensure that relevant environmental and social information is disclosed and disseminated" as required by PS1:

- The current and planned numbers and types of animals, with precise locations.
- Permits for operating those installations, and plans for expansion.
- Cumulative impact assessments and specific environmental management plans.
- Complete environmental monitoring and compliance reports for all groundwater/aquifer extraction, wastewater treatment discharges and gaseous emissions.

### Require PRONACA to have a surface and ground water quality program with results publicly available

Establish independent monitoring of wastewater, river water and well water, and publicly disclose results of monthly (both unscheduled and regular) analyses, reviewed by the banks.

## Establish meaningful consultation with affected Indigenous communities

Ensure that PRONACA establishes a mechanism for ongoing and genuine two-way dialogue and consultation (not merely websites and promotional statements) with local communities, such that community members can raise concerns without fear of reprisals.

## Require PRONACA to install deep bedding materials

in all its owned and contracted swine farms to improve animal welfare and sanitary conditions and to minimize air quality impacts on local communities.

## Establish more rigorous requirements to reduce PRONACA's supply chain impacts

Given that PRONACA sources animal feed from roughly 800 suppliers, it is critical that the company install a much more rigorous evaluation, monitoring, reporting and verification system to understand feed producers' impacts on biodiversity, GHG emissions and deforestation. This system should be independent and made available to stakeholders.

## Encourage PRONACA and the local authorities to fully implement the 2009 court resolution

(No. 0567-08-RA of July 16, 2009) establishing a commission of government, company and community representatives to monitor, assess and mitigate damage related to “operation of the biodigesters, water consumption, and the management of organic and inorganic waste that is discharged into bodies of water.”

## Investigate the impacts of PRONACA's operations

to determine whether compensation is warranted for the health, economic and cultural impacts suffered by Indigenous communities because of PRONACA's harmful impacts on fishing, tourism, cultural activities and local water and air resources.

# Recommendations for Government

## Activate the joint commission

The Ombudsman of Santo Domingo should fulfill its responsibility as outlined in Resolution No. 0567-08-RA to bring together relevant agencies, PRONACA and the community members into a commission as noted above.

## Ensure that all necessary licenses are granted and environmental plans submitted and executed

The Ombudsman of Santo Domingo must ensure that all proper environmental management plans and licenses are up to date.

## Implement an environmental audit

The Minister of Environment (MAATE) must evaluate whether the Provincial Government of Pichincha is failing in its duty to require updated environmental licenses and plans to comply with Article 176 of the CODA.

## Acknowledge the constitutional rights of local communities

All relevant government agencies should acknowledge the constitutional rights of affected communities and require that both PRONACA and its financial backers—including the banks—either eliminate or mitigate and compensate for the company's harmful impacts that interfere with citizens' abilities to exercise the rights the government has granted them.

**Implementing the foregoing recommendations** can alleviate suffering of affected communities, restore impacted ecosystems and provide a model of good environmental and social governance. Taking these steps is also what the banks' policies and Ecuadorian law require.







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FAILURES AND RECOMMENDATIONS**

