

Environmental and Social Review Summary
Russia Volga Farming Grain Production Project

This Environmental and Social Review Summary (ESRS) is prepared by MIGA staff and disclosed in advance of the MIGA Board consideration of the proposed issuance of a Contract of Guarantee. Its purpose is to enhance the transparency of MIGA's activities. This document should not be construed as presuming the outcome of the decision by the MIGA Board of Directors. Board dates are estimates only.

Any documentation which is attached to this ESRS has been prepared by the project sponsor, and authorization has been given for public release. MIGA has reviewed the attached documentation as provided by the applicant, and considers it of adequate quality to be released to the public, but does not endorse the content.

Country:	Russian Federation
Sector:	Agribusiness
Project Enterprise:	Volga Farming Ltd.
Environmental Category:	B
Date ESRS Disclosed:	October 28, 2010
Status:	Due Diligence

A. Project Description

The project involves the expansion of grain production in Penza and Tambov regions of the Russian Federation (“Russia”). Volga Farming (“VF”) will invest in the expansion of agricultural land, new equipment, increased grain storage and machinery capacity, application of modern agricultural technologies, training for personnel and recruitment of additional personnel. The basic operations in the project are: tillage, sowing of crops, crops surgery, harvesting, transportation, preliminary sorting, storage, sale and shipment. Crops, among others, include winter wheat, spring wheat, spring barley, peas and sunflowers.

VF has been operating in Russia since 2007 and currently grows crops on 65,000 ha of consolidated agricultural land located within a radius of 60 km in the Penza region, 600 km southeast of Moscow. VF aims to acquire an additional 90,000 ha of agricultural land in adjacent regions to assemble and consolidate a land platform from which to promote their integrated economic, social and environmental approach to land use and land management to modernize grain production. 40,000 ha are in the process of being identified in the Penza region and 50,000 ha have been identified in the Tambov region, which borders the Penza region to the southwest. The MIGA guarantee will cover the 90,000 ha to be acquired.

B. Social and Environmental Categorization

The project is classified as a Category B under MIGA’s Policy on Social and Environmental Sustainability because potential adverse social or environmental impacts

are few in number, generally site-specific, largely reversible and readily addressed through mitigation measures. The potential risks of the project are associated with grain production, with key impacts related to soil erosion, pesticides and agrochemical pollution of water courses and soils, farm machinery pollution, crop storage pollution, depletion of water resources, dust creation (which may also pose risks to community health and safety), land acquisition and worker health and safety.

C. Applicable Standards

While all Performance Standards are applicable to this project, current information indicates that the project will have impacts which must be managed in a manner consistent with the following Performance Standards:

- PS1: Social and Environmental Assessment and Management System
- PS2: Labor and Working Conditions
- PS3: Pollution Prevention and Abatement
- PS4: Community Health, Safety and Security
- PS5: Land Acquisition and Involuntary Resettlement

PS6 (Biodiversity Conservation and Sustainable Natural Resource Management) is not applicable because no potential adverse impacts to biodiversity have been identified or renewable natural resources implicated. PS7 (Indigenous Peoples) does not apply as no indigenous communities have been identified in the project's area of influence. PS8 (Cultural Heritage) is not applicable as no culturally sensitive lands have been identified in the project's area of influence. However, chance find procedures will be required consistent with PS8.

D. Key Documents and Scope of MIGA Review

The documents reviewed by MIGA:

- Volga Farming: Grain Production Project in Penza Region - Social and Environmental Assessment Report, July - October 2010
- Volga Farming: Spraying and Chemical Handling Processes and Procedures, 2010
- Volga Farming: Land Acquisition Process Note, September 2010
- Volga Farming Land Assets Summary, September 2010
- Volga Farming Existing Land Assets Summary and Principles for Future Land Acquisition, October 2010
- Volga Farming: Human Resources Policy, June 2009

- Russian Federation Labour Laws, 2006-2007

MIGA's environmental specialist conducted a social and environmental due diligence mission to the existing farming sites from September 18-24, 2010. MIGA reviewed environmental and social management issues associated with the existing farming operations on 65 000 ha of land. The environmental work also provided an adequate framework for environmental and social management for new farming operations. The proposed MIGA guarantee will cover the 90 000 ha that has yet to be acquired in the Penza and Tambov regions. As the physical and socio-economic characteristics of the existing farming operations are similar to those in the identified locations in Penza and Tambov regions, it is expected that the principles and procedures for environmental and social management will address all VF activities.

The objective of MIGA's due diligence was to review the social and environmental management capacity of the project enterprise to ensure that all farming operations and land acquisition are (and will be) carried out in compliance with MIGA's Performance Standards. As significant numbers of plots of land are acquired, site specific ESIA/ESMPs will be prepared, reviewed and disclosed by MIGA and local authorities in accordance with national laws and MIGA's Performance Standards.

E. Key Issues and Mitigation

PS1: Social and Environmental Assessment and Management Systems

An ESIA and ESMP were prepared for the farming operations on 65,000 ha of land, as well as the principles and procedures for environmental and social management of future projects. The documentation contains analyses related to potential project issues: land use and land degradation, soil and water resources and their pollution, air emissions, biodiversity issues, waste management, pest management, emergencies, socioeconomic impacts, community and worker safety. The majority of current environmental and social risks are evaluated as low or low-negligible. The most important issues raised relate to risks of soil erosion and increased compaction, pollution of soils and waters with chemical toxics and loss of trained and skilled personnel.

The framework presented for social and environmental management for new farming operations is adequate to cover the 90,000 ha expansion. As the physical and socio-economic characteristics of the existing farming operations are similar to the identified locations in Penza and Tambov regions, it is expected that the framework for social and environmental management will address VF operations.

Management Program: The project's management program contains three sections: (i) risk assessment and mitigation measures, (ii) improvement measures to the natural and social environment, and (iii) capacity building and training. The program identifies the roles and responsibilities of the parties involved and relevant Russian and MIGA/IFC standards and regulations. Activities include the improvement of soil fertility, increased

supply and quality of local water resources, support to regional biodiversity conservation activities, decrease in waste products and emergency management.

Additional action plans and procedures will be prepared and/or updated, including: annual Pest Management Plan (“PMP”) updates, safety manuals for pesticide use, plans for gradual replacement of old techniques, plans for supporting laborers during the winter down period, integrated soil survey plans, plans for community development cooperation, plans for biodiversity and cultural heritage conservation, where needed, GIS integrated system for decision-making, etc.

Organizational Capacity and Training: Volga Farms currently employs one health and safety engineer to oversee the environmental compliance issues as it relates to local permits. To improve the company’s social and environmental management capacity, it plans to specify/strengthen environmental responsibilities in existing relevant positions, recruit an environmental specialist, Geographic Information Systems (“GIS”) specialist and public relations specialist.

The current employee training program covering land and pest management will be strengthened through special courses on social and environmental risk assessment, GIS, soil testing and others. Agreements with secondary and professional schools to train personnel and external students are also being developed.

Monitoring and Reporting: A set of key indicators to monitor and evaluate potential adverse social and environmental project impacts been developed. An integrated GIS will help monitor planned activities and inform on the state of the environment in the affected areas for key environmental, agro-ecological, technical, financial and operational parameters.

Both internal and external reporting procedures have been specified in the ESIA/ESMP. Specialists in the company responsible for monitoring will report their results to management. External reporting will consist of: (i) preparation of regular (at minimum annual) reports on social and environmental management performance and compliance, (ii) preparation of press releases for mass-media, and (iii) presentations, reports and minutes for meetings with communities, local and regional authorities.

PS2: Labor and Working Conditions

Labor and working conditions within the company are regulated and guided by the Russian Labor Code. It prohibits discrimination, child and forced labor, regulates employee relations, the rights and obligations of the worker and the employer, regulates labor safety and establishes basic principles of social partnership. Each jobsite retains a “passport” (full description of duties and labor conditions) which serves as a supplement to the individual labor contracts. The company plans to develop a collective agreement between laborers and administration to improve worker relationships and establish a grievance mechanism.

The Volga Farming company currently employs 240 workers on a full time basis, with plans to increase employment by an additional 500. In peak periods of the season (spring planting, harvesting) the number of staff can increase by 30% due to the employment of seasonal workers. Due to the seasonal nature of agricultural production, the company is unable to provide employment for more than 7-9 months out of the year. Resolving possible conflicts raised by the winter gap for workers is on the agenda of the company's administration and various measures will be explored (i.e. insurance fund, alternative employment, training, unpaid leave, etc.). Worker health and safety conditions and salaries are generally higher at VF than competitors in the region. Workers receive qualified medical checkups and are provided with proper safety means/equipment and training for all activities. In the company's first season (2008/2009) producing 15 000 ha of crops, there were no accidents. MIGA's review of the company's human resources policy concludes that it is consistent with PS2.

PS3: Pollution Prevention and Abatement

Risks of local pollution to soil, water, grain and air are negligible and mitigated by a number of safety procedures that are regularly updated. Some areas of concern are:

- repair workshops, garages and agricultural machinery stations,
- waste around company's production facilities,
- pesticides and agrochemicals storage facilities, granaries and collection-shipment-sorting areas,
- refueling areas,
- surface and ground waters, and
- dust pollution as a result of a wind erosion during tillage.

The company follows integrated approaches for environmental management and safety. It also utilizes modern safety equipment and machinery for the handling and use of pesticides and agrochemicals, applies WHO and Russian approved pesticides to avoid and mitigate any negative impacts. These safety plans and procedures will be utilized for current and future operations.

PS4: Community Health, Safety and Security

For current operations, the grain production cycle does not present potential significant adverse risks to community health and safety because no settlements in the area are directly impacted by the project. The majority of villages and small settlements for current operations are located greater than 300 meters from the farmlands and VF's management program restricts the use of pesticides and agrochemicals on the fields close to settlements and water protection zones.

The company takes measures aimed at providing health and safety awareness among the local community. Such measures include: regular community members and land shareholders meetings, and field days arranged by the company annually with participation of local authorities and local residents. The program includes demonstration and discussion

of modern machinery, innovative approaches in soil cultivation, seed treatment, crop protection and precision input application techniques. Special attention is paid to the pesticides used. VF also provides in-kind support to the community by repairing roads for mutual benefit (farming operations and improved community connectivity) and provides continued support to the local education system.

Security arrangements: Unarmed in-house security guards are employed by the company. VF's chief of security, assisted by local farm managers, is responsible for the selection and monitoring performance of security guards. Before employment, VF runs security checks on all of its potential guards (criminal records, convictions, etc.) Watchmen have no special means of protection, except a mobile phone used for notification purposes. Security cameras are used at several farms.

PS5: Land Acquisition and Involuntary Resettlement

In 2008 VF established in-house capacity to secure all of its land rights. The land acquisition team has extensive practical experience on acquisition and transaction procedures, solid understanding of how to best to apply the guiding laws and regulations and be proactive to legal changes over time.

The land acquisition process consists of buying plots of land (pais) from private owners, leasing plots of land (pais) from private owners and/or leasing municipal land for agricultural production. All the land that has been acquired (or is in the process of being registered for ownership rights) by VF from private individuals resulted from voluntary market transactions through a willing buyer/seller arrangement. The auction of public land is open to the local market.

The acquisition team started purchasing land in the Penza oblast in 2008, both public 49 year leases (20,000 Ha) and ownership of private pai land (23,000 Ha). In 2009, VF acquired the Penza based (Belinsky district) farming company Heartland Farms with private 49 year leases (12,500 Ha), public 49 year leases (4,500 Ha) and ownership of private pai land (1000 Ha). Currently, VF owns or controls around 61,000 Ha within 60 km radius in three districts of Penza region (Belinsky, Nizhny Lomov and Pachelma). An additional 4,500 Ha land in Belinsky district is on an 11 months lease term.

The long term target is to increase VF land stock to a total of 150,000 ha. The strategy for identification and registration of the remaining 90,000 ha land rights is to acquire additional land within or in the neighbouring three districts (Nizhny Lomov, Pachelma and Belinsk district) in the Penza region adjacent the current land platform. In order to geographically diversify its land, VF aims at expanding into a neighbouring region in the black soil area with similar environmental conditions. At the moment, VF is considering the acquisition of a cluster of 50,000 ha in the Tambov region.

In the rare case that land acquisition for the project causes loss of income or livelihood, regardless of whether or not the affected people are physically displaced, the company will be guided by the requirements stated in Performance Standard 5. All the land that

has been acquired (or is in the process of being registered as ownership rights) by Volga Farming from private individuals has resulted from voluntary land market transactions.

The company plans to update the modalities of a grievance mechanism and will inform the affected communities about the mechanism in the course of its community engagement process. A copy of the updated grievance mechanism will be submitted to MIGA. The grievance mechanism is designed to ensure that concerns are documented, circulated and addressed appropriately. Any public concerns, requests and complaints related to Volga Farming activities, including land acquisition, can be addressed in written form or verbally to the company, local council and district administration and local Prosecutor's office.

F. Environmental Permitting Process and Community Engagement

The environmental assessment process included consultations with company specialists, employers and local people and the representatives of local authorities. Russian land and environmental legislation clearly defines the approval process of land acquisition and environmental permits. Each step of the project was assessed in accordance with governmental procedures and was approved by representatives of communities (representatives of land share holders), of local rural administration, of regional state governmental committee for protection of natural resources and environment, of forestry department, of land committee, of rights registration authority and other related bodies. Ongoing and future measures for project development and for further land acquisition are at different stages of permitting and follow the same procedures and will require similar agreements.

Community engagement: VF currently works actively with communities through the local administration. The company regularly organizes meetings with the local population where various economic, social and environmental issues are discussed. The company also works through the local administration to develop and execute community development projects. VF's operations in one local administration have been highlighted as an initiative of good socio-economic cooperation. This message is communicated through large billboards displayed at the local administrative offices. VF's community engagement process will continue for its new operations.

G. Availability of Documentation

The [Social and Environmental Assessment Report](#) (2010) along with a [summary note on land acquisition](#) are disclosed as attachments to this ESRS and available electronically at www.MIGA.org. Annexes to the Social and Environmental Assessment Report are also available ([volume 1](#) and [volume 2](#)). The Social and Environmental Assessment Report (2010) is also available for viewing at local administrative offices and at <http://www.volgafarming.com>