Livestock sector readiness to access climate finance

Review of progress and preparation of closure

November 8th , 2021

Overview

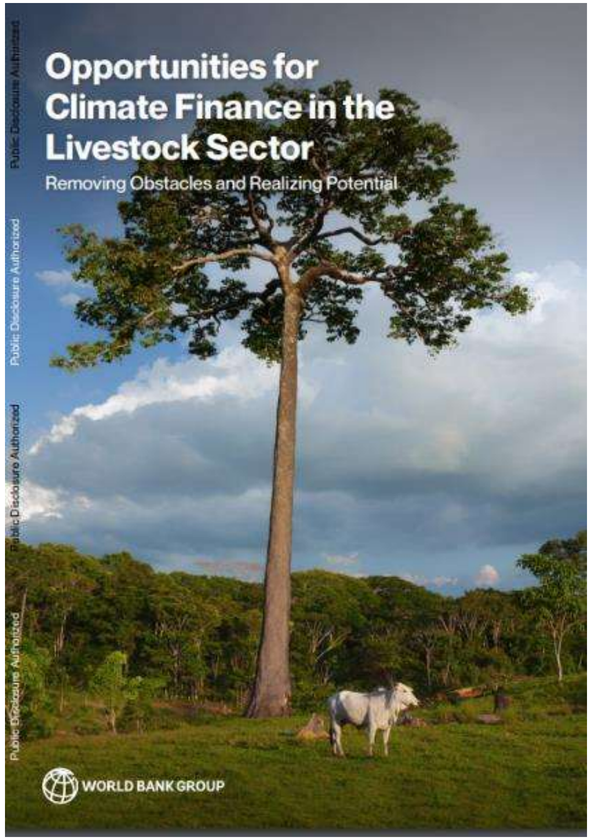
Development objective: To increase the readiness of public and private entities within the animal protein sector to access climate finance towards a low-carbon transformation of the sector.

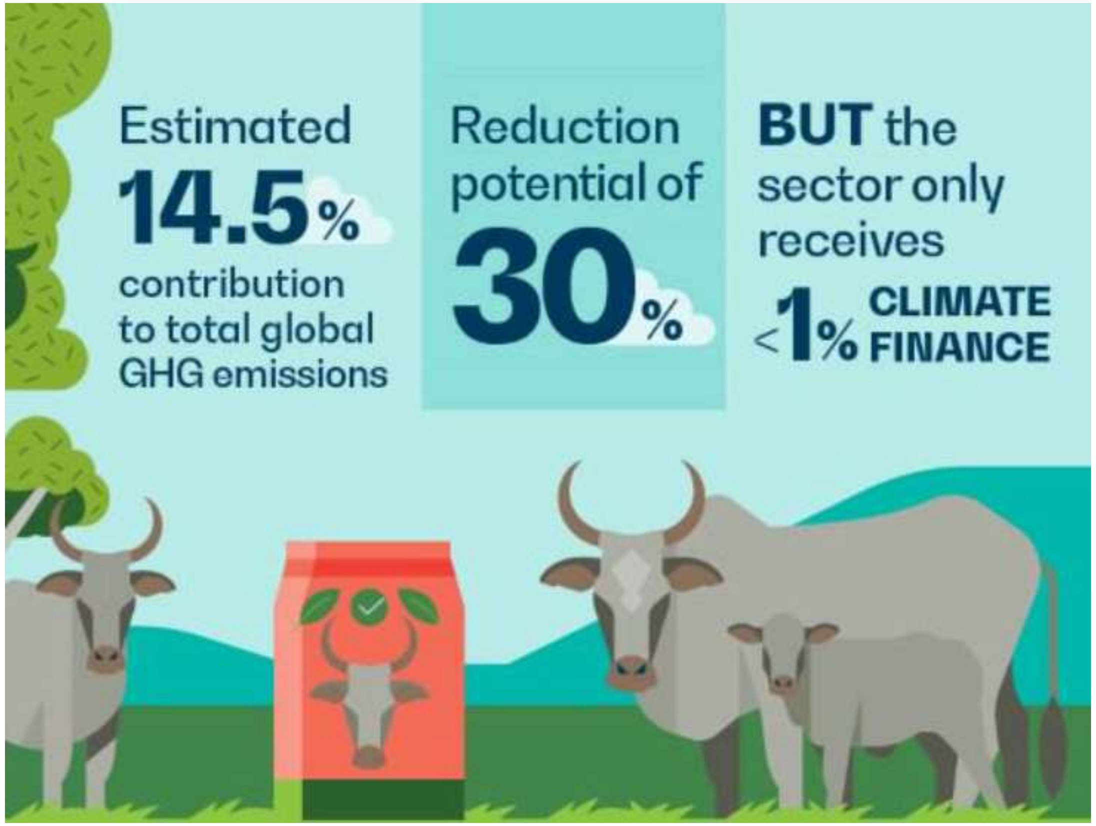
Implementation: November 2019 to December 2021

Deliverables:

- Concept paper on pathways towards a deepened integration of the animal protein sector into climate finance
- Two blueprints for agreements between relevant private sector entities and national governments on the deforestation-free, low-emission intensity production of animal-sourced food commodities
- A cost-efficient MRV methodology adapted to livestock and land-use change
- Community of practice

Concept paper

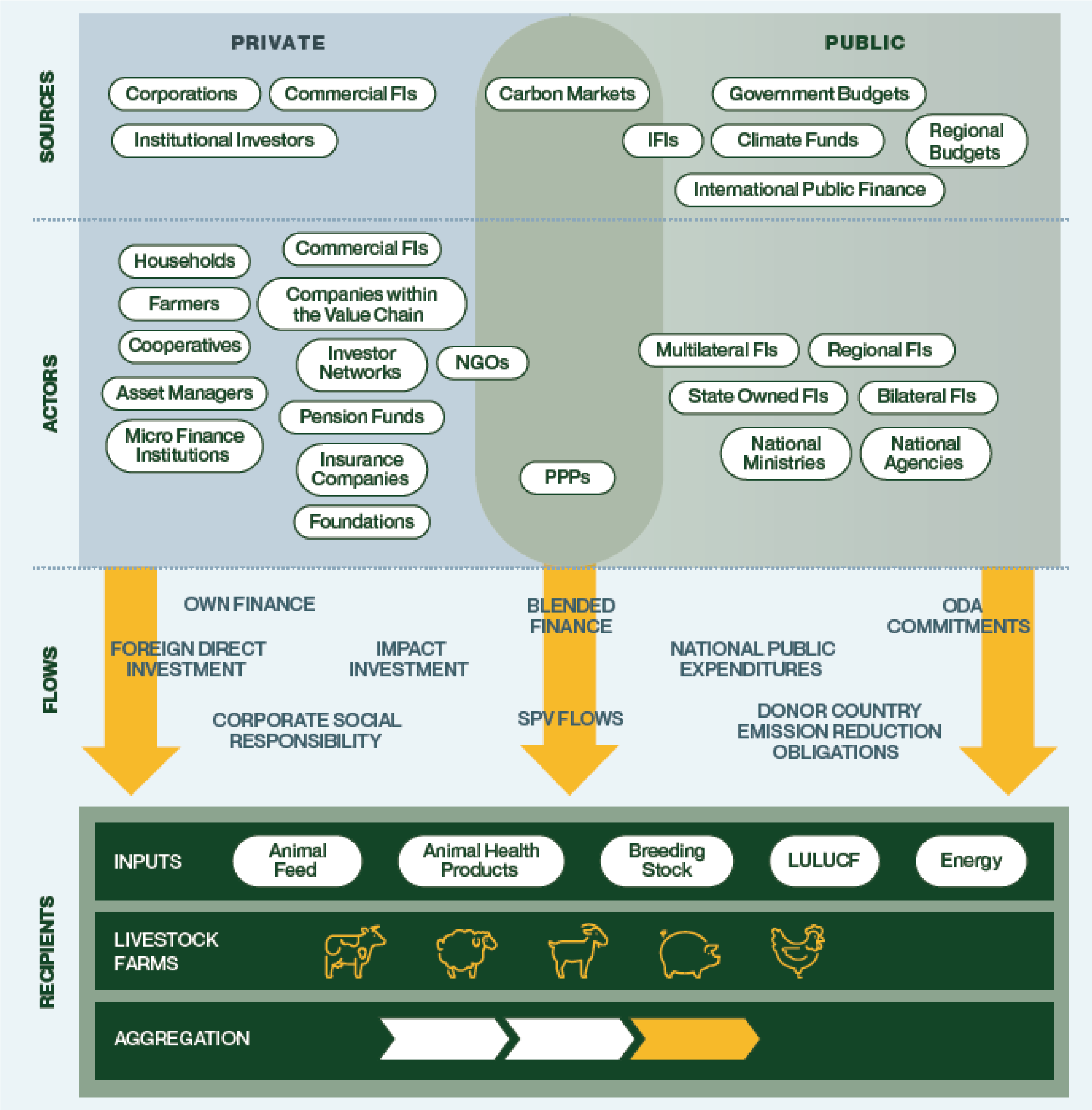




Livestock sector is part of the climate change problem but also of the solution as large and bankable mitigation options exist.

Obstacles restricting climate finance flow into the animal protein sector

- High costs of servicing smallholders
- High perceived risks
- Weak or disconnected pricing signals along animal value chains / lack of premiums
- Lack of data and statistics to develop investment plans
- Lack of shared data and approaches for MRV
- Animal protein sector perceived as highly controversial
- Lack of urgency/awareness in the sector
- Weak policy framework & absence of a sense of climate action urgency in the sector



Many players, instruments, options

https://openknowledge.worldbank.org/handle/10986/35495

Blueprint 1: Credit Line with Climate Conditionality in Kenya Dairy Sector

Why dairy and Kenya?

- Effective livestock management is listed as **a priority in the 2020 updated NDC** (Dairy in Kenya represents 3.5% of total GDP but 15% of total emissions)
- The Kenya dairy chain is **well structured**. With two **2 World Bank operations (+1 in preparation)** related to dairy (KSCAP and NARIGP), the WB has already access to 95 registered FPOs with operational structure and ready to take loans
- **Financial institutions have some experience** with the dairy sector and in lending to smallholder farmers and FPOs/cooperatives but **constraints** to pick up: risk, conditions
- Mitigation (emission intensity) practices are **known and profitable** (based on efficiency gains). Access to credit to implement mitigation practices is a major barrier at every level of the dairy supply chain.
- High **replicability** (volume, growth, image)

Rationale:

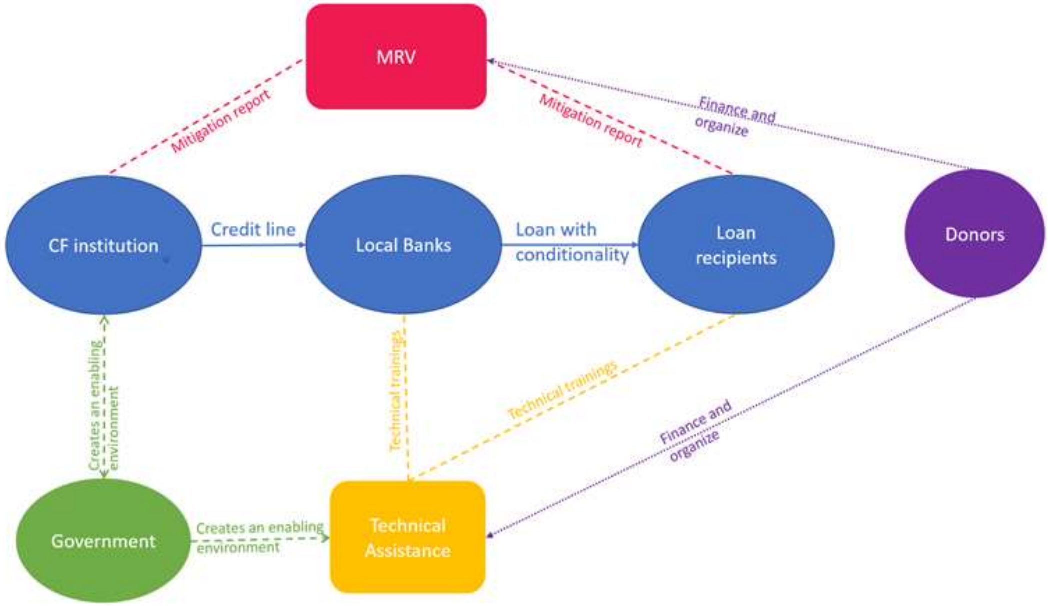
- Mobilize climate finance to **improve loan conditions** (guarantee mechanism, concessionality) and develop MRV system
- Mobilize World Bank operations to **provide TA**
- **MRV** (1) mitigation values associated with each investment; (2) digital platform with app-based data collection directly from loan recipients.

Scope

- The credit line targets main **stakeholder groups along the supply chain**. Total credit line of **US$130 million** and an investment universe estimated at US$360 million

Proposed design of the credit line

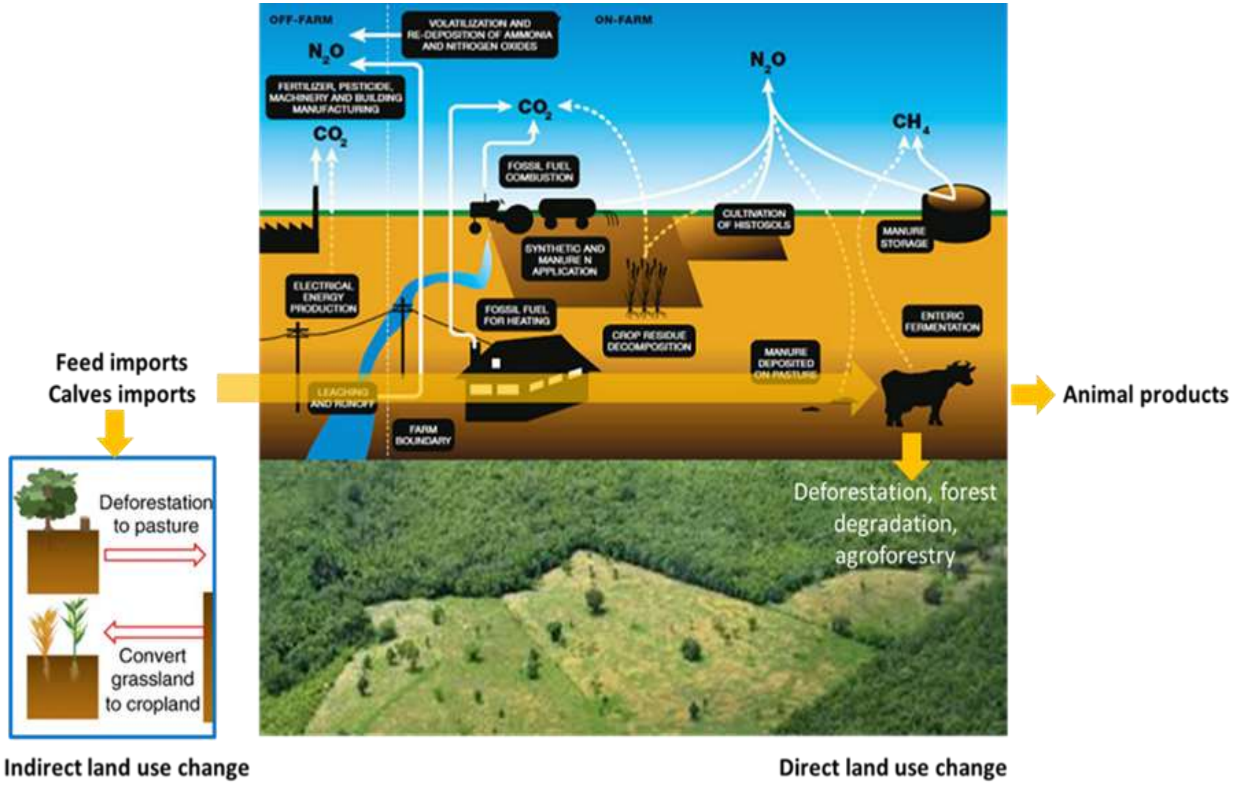
Conditional line of credit design



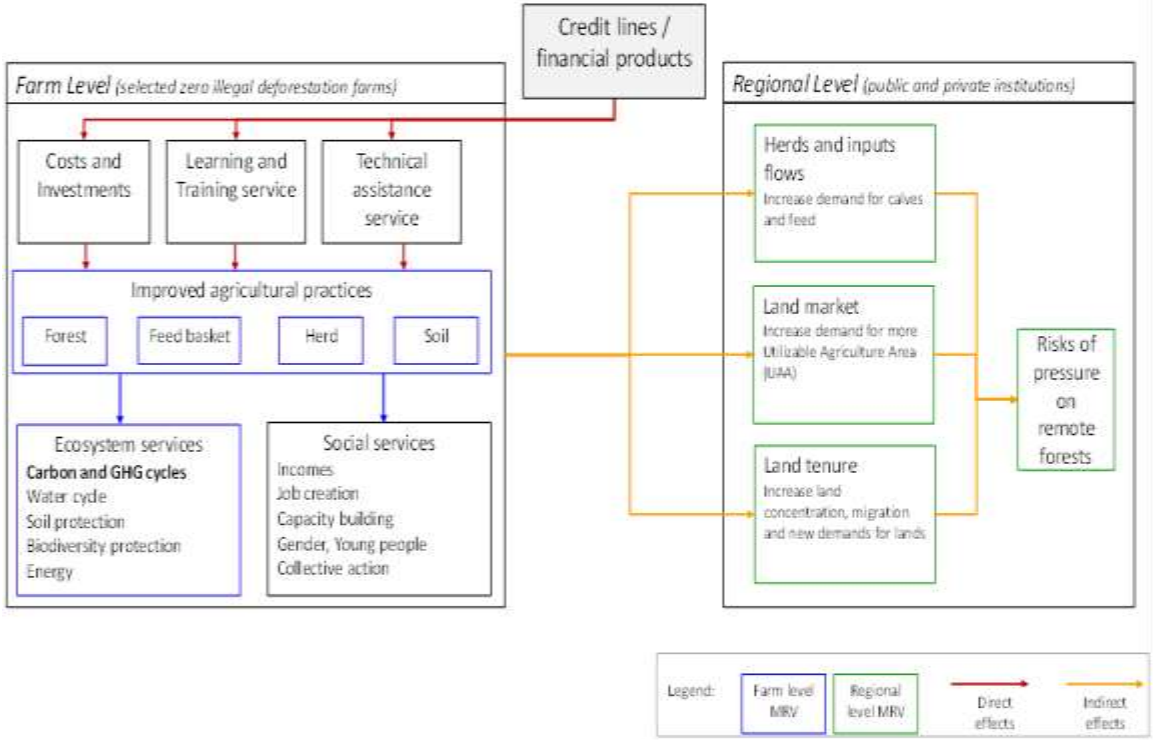
Moving forward: Collaboration with **IFC** and **EQUITY Bank**

Project	Market loan terms	Proposed loan terms	Mitigation potential
Biogas	Tenor: 2 years Interest rate: 20-30%	Straight-Line Amortization Tenor: 4 years Interest rate: 20% Grace period: 3 months	0.4 Mt CO_2eq. over 10 years
Zero-grazing unit	Tenor: 4 years Interest rate: 14%	Straight-Line Amortization Tenor: 4 years Interest rate: 13.95% Grace period: 1 year	1.8-3.6 Mt CO_2eq./year at farm level (improved efficiency and feeding)
Dairy cow	Tenor: 3 years Interest rate: 20-30%	Straight-Line Amortization Tenor: 4 years Interest rate: 20% Grace period: 1 year	
Hay production	Tenor: 1 year Interest rate: 14-18%	Straight-Line Amortization Tenor: 4 years Interest rate: 14% Grace period: 6 months	0.1 Mt CO_2eq. over 10 years (increased yield and reduced losses)
Hay storage and marketing	Tenor: 4-5 years Interest rate: 20%	Straight-Line Amortization Tenor: 6 years Interest rate: 20% Grace period: 6 months	
Milk chilling	Tenor: 6 years Interest rate: 12-14% Grace period: 3 months	Bullet Payment Tenor: 7 years Interest rate: 12% Constant annual payment: US$2,000	0.3 Mt CO_2eq. over 10 years (energy efficiency/renewable energy in milk chilling and processing)
Milk pasteurization	Tenor: 6 years Interest rate: 12-14% Grace period: 3 months	Bullet Payment Tenor: 6 years Interest rate: 12% Constant annual payment: US$6,000	

MRV framework



Direct/indirect emissions and removals, direct/indirect land use change



Farm level to regional level

Community of Practice

- This CoP is a space for **knowledge exchange, learning, collaboration and peer support** to mainstream climate change in the livestock sector, to **increase capacity and effectiveness** to access climate finance and to explore investment opportunities

- Bi-monthly gathering on specific themes

- A special gathering was held to inform stakeholders of initial findings and gather inputs to further develop blueprint 1 on credit line development conditional to mitigation action in the Kenya dairy sector.

Lessons learned (i)

On a general level

- Climate Finance is **not homogenous** : large diversity in the type of sources, instruments, and providers; level of reporting; level of return sought by investors
- The two blueprints, in Kenya and beef in Colombia, confirmed that **financially viable mitigation options exist**

On Climate Finance readiness to work with livestock sector

- **Livestock remains relatively unattractive** for climate-finance investors, especially the beef sub-sector. The sector has a “bad name” (emissions, lack of understanding ethics, nutrition and health)
- **Soil Carbon** (sequestration) presents a potentially compelling story, given the co-benefits that it offers (resilience to climate change impacts, water retention, protection of biodiversity)
- Private banks remain unenthusiastic about issuing **concessional loans** offering virtually no options to reduce interest rates for the livestock sector
- **Business-to-business transactions** offer another option for climate financing to enter the livestock sector where green sourcing can be part of the business plan and important to the image of the company
- Agriculture, Forestry and Land-Use (AFOLU) finance is shifting, and **new instruments are becoming available**, e.g. ERPAs
- Need for **awareness raising** and technical assistance to financial institutions: identify profitable areas for investment in the sector and to assess and carry out monitoring

Lessons learned (ii)

On livestock sector readiness to access Climate Finance

- The livestock sector already faces the **challenge of attracting "conventional" finance** in developing countries
- The reaction of the **industry is defensive, rather than comprehensive**. The example of Hacienda San Jose (HSJ) supported under blueprint #2 in Colombia has a business opportunity to generate climate assets and fully become part of solution.
- Frequent impossibility to generate **absolute emissions reduction**: in most Low- and Middle-income countries emission-intensity reduction is slower than the rate of production growth.

On measurement, reporting and verification

- While some progress has been made, **major obstacles remain**.
  - ✓ Indirect effects, related to feed production and land-use
  - ✓ rebound effects on the market related to competitiveness and substitution issues
  - ✓ permanence of SOC, as for other land use sectors,
- These issues lead to **credibility concerns** regarding the mitigation options
- **Improvements** in some significant areas.
  - Evaluating soil-carbon sequestration is becoming more accurate
  - Digital technologies, e.g. sensors in buldings and remote sensing