BANK INFORMATION CENTER

How Much (and How) Does IFC Support Industrial Livestock? And Is It Changing?

Introduction: Why this study?

The International Finance Corporation (IFC), the main private sector arm of the World Bank Group (WBG), provides finance through loans to and equity investments in private sector operations in developing countries with the aim of promoting their development. IFC finances companies within the agribusiness sector, including livestock operations, on the basis that it promotes food security and economic development. Whether such changes occur or not, such operations often contribute significant greenhouse gas (GHG) emissions, harms to water, soil, and air quality, and biodiversity loss. We undertook this study to analyze the extent to which IFC's agriculture portfolio was supporting industrial livestock[1] directly and indirectly (through feed operations), how this support has evolved, and what its impacts have been.

1 The interchangeable terms "factory farming" and "industrial livestock production" refer to animal breeding, rearing, slaughtering, processing, and/or feed operations involved in the mass production of meat, dairy and eggs. Typically controlled by multinational corporations, this production involves breeding and/or rearing between hundreds and thousands of animals in concentrated feeding operations (mostly chickens, dairy cows, and pigs), feedlots (beef cows), or extensive, controlled grazing systems (beef cows) that are vertically integrated into international value chains. Sources: United Nations Environment Programme (UNEP, 2022). Emissions Gap Report 2022: The Closing Window: Climate crisis calls for rapid transformation of societies. https://www.unep.org/emissions-gap-report-2022; Harwatt, H. (2019). Including animal to plant protein shifts in climate change mitigation policy: a proposed three-step strategy. Climate Policy, 19:5, 533541, DOI: 10.1080/14693062.2018.1528965.

Methodology:

In our investigation, we examined IFC's portfolio of loans approved in the Agribusiness and Forestry sector from Fiscal Year (FY)17 through FY23. We looked at this portfolio across two periods, each three and a half years, to highlight changes or trends over time. The first period runs from July 1, 2016 through December 31, 2019 (FY 2017, 18, 19, and half of 20), and the second goes from January 1, 2020 through June 30, 2023 (the second half of FY 20, FY 21, 22, and 23). From the Agribusiness and Forestry portfolio, we prioritized projects with components related to a) livestock operations, b) livestock product procurement and processing, and c) livestock feed production for investigation.

We mainly sought to evaluate these agriculture projects based on whether they finance industrial agriculture, specifically industrial livestock operations, and how they applied IFC's Performance Standards (PSs) as they relate to greenhouse gas emissions and biodiversity. Using disclosed Summaries of Investment Information (SII) and Environmental and Social Review Summaries (ESRS), we looked for information on the content, type and size of operations to determine how much of the projects financed was in support of industrial livestock operations. We extended our evaluation of operations which procure

and process animal products (dairy) to the operations of their suppliers as well, since these inherently support industrial livestock.

Our evaluation of the livestock feed projects differed slightly. This category included both operations that explicitly identify themselves as animal feed producers and those that produce or process crops most commonly used as inputs in livestock feed—soy, corn, and wheat. These projects were determined to support industrial livestock operations if the crops were for animal feed, which could then be used to sustain industrial livestock operations. Some feed-related projects also had the potential to support industrial agriculture directly through their own operations.

LIMITATIONS

One of the limitations of this report is that the projects were sorted into their respective categories based on keywords associated with project documents (pig, poultry, cattle, duck, and other livestock-related keywords were used to identify livestock operations; dairy and milk were used to identify animal product projects; soy, corn, wheat, and animal feed were used to identify animal feed crop-related projects) from those within the Agribusiness and Forestry sector as designated by IFC. Another limitation is that the assessment of these projects is based on what is disclosed by IFC through the SII and ESRS. Therefore, it does not consider any additional information not captured or disclosed within those project summaries. We were not able to use EIAs to assess the impacts of projects in many cases as these either did not exist[2] or were not disclosed. Also, since project summaries are rarely updated, it cannot be determined whether or how conditions in the summary have changed. Finally, as further described below, limited information made it impossible to confirm if some livestock operations were industrial, although none could be confirmed as not industrial. This lack of essential project information points to the need for IFC to increase disclosure..

Findings:

SUPPORT OF INDUSTRIAL LIVESTOCK AND RELATED INDUSTRIAL AGRICULTURE

We examined a total database of 182 IFC Agribusiness and Forestry projects, 86 in the first period (FY17 to mid-FY20) and 96 in the second period. Of these, we found 61 (totaling $3.486B) supporting livestock operations, livestock product procurement and processing, and livestock feed production – 28 ($862.76M) in the first period and 33 ($2.623B) in the second.

Among the 28 livestock-related operations in the first period, 13 were livestock operations, 10 were for livestock feed, and five were for animal products. Of the 13 livestock operations, we found that 11, totaling $201.64 million, supported industrial livestock operations – the remaining two were unclear due to insufficient information on the type of operation supported. Of the 10 animal feed-related projects, six, totaling $222.67 million,[3] supported animal feed for *industrial* livestock operations, primarily large-scale soy production associated with contributions to deforestation.[4] Of the five animal product projects, one ($9.46M) was found to support industrial livestock operations. In total, of the 28 livestock-related projects evaluated for the first period, 18 projects (64.3 percent) and $433.77 million worth of finance were found to be supporting industrial livestock operations.[5]

In the second period (mid-FY20 through FY23), of the 33 livestock-related projects, we found 18 projects directly supporting livestock. Of these, 15 (totaling $632.37M) supported industrial livestock operations – the remaining three were unclear, but likely supporting industrial livestock. We found seven animal feed crop-related projects; of these, three ($404.48M total) were clearly supportive of industrial livestock operations. For the remaining four, whether they supported industrial livestock was unclear due to a lack of information as to where the crops went once they were produced.[6] We also found eight animal product projects; of these, three (totaling $154.57M) supported industrial livestock operations – the remaining five were unclear due to a lack of information on suppliers.[7] This means that out of the 33 livestock-related projects evaluated for the second

2 IFC replied on this point that "Aside from greenfield operations (feed mill, feed lot, abattoir), livestock' operations are normally not required to undergo a regulatory ESIA process. As such, such ESIA study may not [be] available for the IFC team during appraisal. Equally, establishment of farm does not require a regulatory ESIA process in many jurisdictions. If an ESIA has been carried out for an IFC financed project, there is a requirement to disclose such study, as per the "2012 IFC Access to Information Policy". Such disclosure has been done without exception for the last 4 years."

3 Two additional projects totaling $90M clearly supported industrially-grown crops, but was unclear as to where the crops were going.

4 Such monoculture operations are also problematic because they degrade the soil and rely on pesticides and chemical fertilizers that pollute air and nearby water sources, harming both people and biodiversity. See (inter alia) How Industrial Agriculture Affects Our Soil and Environmental impacts of Monoculture.

5 Of those not conclusively found to support industrial livestock, the uses were unclear due to a lack of information as to where the crops went once they were produced, or due to a lack of information on product suppliers.

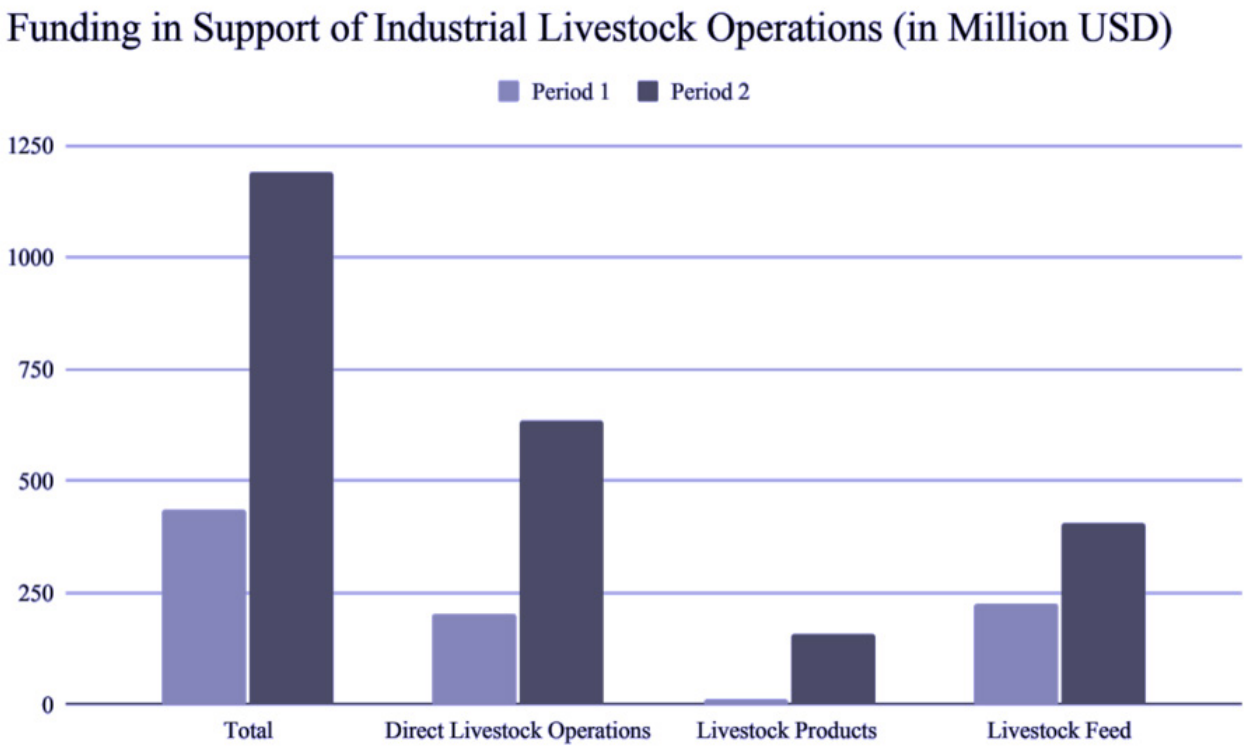
6 Of the seven animal feed crop-related projects, six (totaling $632.48 million) supported industrial agriculture (the three supporting livestock, plus three where end-use was unclear). Many projects supported large-scale soy production with fertilizer and pesticide use and other monoculture crops, such as wheat, grown on consolidated agricultural lands. These projects promoted industrial agriculture beyond livestock, with likely harmful environmental and social impacts unless robust mitigation measures have been applied.

7 Overall, the animal products sub-sector accounts for 93%, $1.335 billion of $1.432 billion, of the total livestock-related financing which could not be clearly classified as industrial. Only $9.46M of $261.95M in the 1st period and only $154.57M of $1.237 billion total in the 2nd period of animal products financing was clearly industrial. This ambiguity is largely attributed to insufficient information regarding the operations from which the IFC-financed dairy processors are sourcing the unprocessed dairy products

period, 21 projects (63.6 percent) and $1.191 billion worth of finance were confirmed to be supporting industrial livestock operations. Meanwhile, the lack of information on the end use or suppliers for the remaining 12 projects demonstrates a clear shortfall in IFC's reporting on its portfolio in this sector.

What is most notable from the first to the second period was the near tripling of finance supporting industrial livestock operations – and more than tripling in direct support of industrial livestock.

	Period 1	Period 2	Percent Change from Period 1 to Period 2
Total Projects Supporting Livestock Operations	28	33	17.9%
Total Finance Supporting Livestock Operations…	$862.76 million	$2,623.62 million	204%
Total Projects Supporting Industrial Livestock Operations	18	21	16.7%
Total Finance Supporting Industrial Livestock Operations	$433.77 million	$1,191.42 million	174.7%
… for Direct Livestock Operations	$201.64 million	$632.37 million	214.6%
… for Livestock Products	$9.46 million	$154.57 million	1,533.9%
… for Livestock Feed	$222.67 million	$404.48 million	81.6%



Why This Matters:

Supporting industrial livestock is not only harmful to the environment, but also counterproductive for food security due to the large amount of grain that could be fed to people instead of being directed towards animal feed.[8] The calories and protein going toward animal feed are each several times higher than those produced by the resulting livestock and livestock products (dairy).[9] Even where crop varieties fed to livestock are not suitable for humans, the use of land and other inputs is inefficient as the same inputs used for human edible crops could produce several times more protein for human consumption.[10] However, IFC has continued to increase its finance for these operations rather than promoting alternatives. Scientists and development experts agree on the need to curtail livestock production and consumption globally, and to avoid imposing an industrial livestock model on regions that don't have it yet[11] and would benefit from the buildout of resilient, regionally appropriate food production systems that address the nutritional needs of populations in sustainable and culturally appropriate ways, in line with SDGs 2 and 12.

GREENHOUSE GAS EMISSIONS

Industrial agriculture operations, especially industrial livestock operations, produce significant greenhouse gas (GHG) emissions. According to IFC's Performance Standard 3 (paras. 7 and 8), IFC clients are required to "reduce project-related GHG emissions" and to quantify those emissions when they "are expected to or currently produce more than 25,000 [metric] tonnes of CO2-equivalent annually [MTCO2e/yr.]." In the first period, only 21 of the 28 livestock-related projects included specific estimates of the greenhouse gas emissions associated with the operations being financed. One of the remaining projects included estimates only relative to the threshold of 25,000 MTCO2e/yr.[12] – indicating emissions fell above the threshold. The remaining six projects did not disclose any estimates of GHG emissions.

Of the projects with disclosed GHG emissions, 11—over half—had GHG emissions over the threshold of 25,000 MTCO2e/yr., and eight of those 11 (totaling $207.3 million) had emissions reaching at least 50,000 MTCO2e/yr. These eight projects consist of loans of:

- $60 million to Conaprole – the largest private company and leading dairy producer in Uruguay
- $45 million to Shenzhen Alpha Feed Company – a Chinese livestock feed producer
- $30 million to Astarta-Kyiv – one of the largest Ukrainian grain exporters
- $22.49 million to Dodla Dairy – a dairy procurement, production, and distribution company in India
- $22 million to Wadi Holdings – an integrated agri-food group in Egypt
- $14 million to Norson Holding – one of the largest Mexican pork producers
- $11 million to Grainpulse – a Ugandan supplier of grains, animal feed, and fertilizer
- $2.8 million to Apetit Group – a leading meat trader and processor in Kosovo

For the mid-FY20 to FY23 period, only 26 of the 33 projects included specific GHG emissions estimates for the financed operations. The remaining seven projects did not have any disclosed GHG emissions estimates.

Of the 26 projects with disclosed GHG emissions, 16 had emissions over 25,000 MTCO2e/yr., including 12 with at least 50,000 MTCO2e/yr. and seven (totaling $402.27M) with at least 100,000 MTCO2e/yr. These seven projects with emissions of at least 100,000 MTCO2e/yr. consist of loans of:

- $141.9 million to Muyuan – the largest integrated hog producer in China
- $55 million to National Dairy and Food Company – a food producer (mainly, flour, sugar, and dairy products) in Yemen within HSA Group (one of the biggest conglomerates in the region)
- $53.9 million to Suguna Holdings – one of the leading integrated poultry producers in India
- $50 million to Pronaca – the largest poultry and pork producer and processor in Ecuador
- $43.4 million to GreenFeed – a pork producer and one of the top feed mill operators in Vietnam

8 On environmental impacts, see Reducing food's environmental impacts through producers and consumers (2018). Joseph Poore and Thomas Nemecek, Science 360 (6392), 987-992. See also FAO (2006) Livestock's Long Shadow. On food security, see Karl-Heinz Erb, Andreas Mayer, Thomas Kastner, Kristine-Elena Sallet, Helmut Haberl, The Impact of Industrial Grain-Fed Livestock Production on Food Security: an extended literature review, Institute of Social Ecology, Vienna, 2012.

9 UNEP reported in The Environmental Food Crisis (2009), that on average 3 kg of grains are needed to produce 1 kg of meat. The report also mentions that the yearly amount of grains going towards non-food use globally make up 4,350 billion calories, and the equivalent of those calories in conversion to meat is only about 787 billion calories, a loss of 82% of the grain calories that could have been consumed.

10 Our World in Data has reported (2021) that "it takes almost 100 times as much land to produce a gram of protein from beef or lamb, versus peas or tofu."

11 See Options For A Paris-Compliant Livestock Sector: Timeframes, targets and trajectories for livestock sector emissions from a survey of climate scientists (2024). Helen Harwatt, PhD. Matthew N Hayek, PhD. Paul Behrens, PhD. and William J Ripple, PhD, Harvard Law School Animal Law & Policy Program: "There are no credible pathways to meeting the Paris Agreement that allow the livestock sector to continue current trends."

12 The EPA estimates typical household CO2 emissions in the United States to be 14,020 pounds per year (about 6.36 MTCO2e/yr.) in regards to electricity consumption. The threshold for reporting is nearly 4,000 times the amount that of a typical US household, or the equivalent of 6,250 passengers worth of round-trip flights from Washington, DC to Beijing, China (4 MTCO2e/passenger).

- $38.1 million to BaF Vietnam Agriculture – an integrated pork producer in Vietnam
- $20 million for a second loan to National Dairy and Food Company in Yemen.

Many of these emissions are noted as stemming from the use of fossil fuels in powering boilers, transportation fleets, and other equipment. Still, emissions are also produced by livestock in most of these projects, and were explicitly included, though not disaggregated, in the GHG estimates for three of the five direct livestock projects[13] in this group.[14] As a matter of transparency and risk management, IFC should require livestock sector clients to account for and disclose projected increases in animal-based emissions separately.[15]

IFC committed to align 85% of its financing with the goals of the Paris Agreement by July 2023 and 100% by July 2025. Both periods covered in this report come after the adoption of the Paris Agreement in December 2015. Given the emissions in industrial livestock operations in particular, it might be anticipated that IFC would be shifting away from these. However, this is not the case. Both the total number of livestock-related projects (28 to 33) and the percentage of such projects in IFC's agriculture portfolio (32.6% to 34.4%) are increasing, along with their GHG emissions.[16] This is inconsistent with the goals of the Paris Agreement and options for a Paris-compliant livestock sector (fn.9).

The WBG sector note on Paris Alignment for agriculture states that "Livestock activities can also lead to expansion into areas of high carbon stocks (e.g., by driving deforestation, through clearing land for animal feed production or for grazing use) or high biodiversity areas." It needs to clarify that such activities, with rare exceptions, shall be considered non-aligned unless their emissions are effectively addressed. IFC then needs to document and disclose how its livestock clients are doing this.

PERFORMANCE STANDARD 6 APPLICATION

IFC's PS 6 addresses Biodiversity Conservation and Sustainable Management of Living Natural Resources. PS 6 applies to projects "(i) located in modified, natural, and critical habitats; (ii) that potentially impact on or are dependent on ecosystem services over which the client has direct management control or significant influence; or (iii) that include the production of living natural resources (e.g., agriculture, animal husbandry, fisheries, forestry)."[17] When performance standards are applied to projects, the ESRS will identify risks within that category and will normally provide actions under the Environmental and Social Action Plan (ESAP) for the company to complete in order to mitigate any risks. Given the scope of application for PS 6 cited here, all agriculture and livestock projects should apply PS 6.[18] PS 6 also sets requirements for supply chain management (especially food), so IFC clients in this sector should "limit procurement to those suppliers that can demonstrate that they are not contributing to significant conversion of natural and/or critical habitats."[19]

In the first period (FY17 to mid-FY20), PS 6 was applied[20] in 10 of the 28 total projects, despite PS 6's applicability to 100 percent of projects relating to agriculture, animal husbandry, and fisheries. In the second period (through FY23), PS 6 was applied to 26 of the 33 projects. This [21]shows improvement in applying PS 6, but still leaves over 20 percent of projects where IFC should have applied PS 6 but did not. When IFC does not apply PS 6 to these projects, clients may fail to identify, avoid, mitigate, and manage impacts on biodiversity and living natural resources, and harms will go unaddressed.

13 The two loans to National Dairy and Food were not counted because the company procured the dairy products from third party producers.
14 IFC states that "This related to Scope 3 emissions, which IFC did not make a commitment to monitor. Only Scope 1 and 2 emissions are required to be monitored."
15 IFC reports that "When a client has GHG emissions above the threshold, there is a requirement to develop a resource efficiency management plan (to reduce GHG intensity)." Further research is needed to see if these plans are disclosed, and if so, whether they are implemented.
16 Some projects included limited measures to address GHG emissions, e.g. from the use of power. For example, a loan to Société Industrielle Agro-Alimentaire (IFC #46764) provided for the use of solar panels to cover 25% of the company's total energy needs and reduce emissions by 313 MTCO2e/yr.; however, estimated emissions of the project are still 8,123 MTCO2e/yr. While there is a reduction in intensity due to the use of added solar panels, the project ultimately increases the company's overall emissions. Another project, Alvoar Lacteos (IFC #46708) specifies a switch from oil to biomass (eucalyptus) as the primary fuel for operations. However, there is no information on GHG emissions other than to create a policy and monitor emissions; hence we can't say if this project reduces emissions or emissions intensity. In no case did we find emissions from the livestock themselves addressed.
17 Performance Standard 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources (2012), p. 2, para. 5. Guidance Note 7 (GN7) adds: "Regarding living natural resources, Performance Standard 6 will apply for all projects involved in the primary production of such resources." https://www.ifc.org/content/dam/ifc/doc/2010/20190627-ifc-ps-guidance-note-6-en.pdf.
18 IFC reports that "Since 2020, supply chain risk assessment is completed DURING appraisal process (as for IFC to understand the significance of the production/sourcing risks)." And "For non-material exposure, it may have happen[ed] that such chain risk assessment has been documented in PS1, Supply Chain section, instead of triggering PS6 requirement." However, given the industrial scale of livestock operations being financed, it is not clear how such risks are determined to be non-material.
19 Ibid., p. 37, para. 30 (iii). IFC reports that "This is done, without any exception, since Feb 2020."
20 In identifying "Applicable Performance Standards" for any project, IFC states "While all Performance Standards are applicable to this investment, IFC's environmental and social due diligence indicates that the investment will have impacts which must be managed in a manner consistent with the following Performance Standards." So in discussing the projects where PS6 applies (or should be applied), we also are referring to projects with "impacts which must be managed consistent with" PS6.
21 IFC reports that "This 80% completion rate is due to the formalization of the CEG appraisal approach, as per the draft Technical Guidance Note on risk assessment of supply chain risk assessment. The remaining 20% would have been documented in PS1. Supply Chain section or judged non-material."

Project Examples:

HIGHLY-EMITTING LIVESTOCK OPERATIONS

Most of the projects within the livestock operations category consisted of financing directly for the expansion of livestock production. For example, IFC's $43 million bond financing for GreenFeed ASF (#43531, 2021, still active) was allotted to finance the expansion of GreenFeed Vietnam Corporation's pig breeding, animal feed production, and commercial pig production operations. Specifically it increased capacity to 200,000 sows per year and constructed 200 additional pig farms. This expansion of industrial pig production operations and development of new farms is noted in the ESRS to potentially increase the GHG emissions to over 500,000 MTCO2e/yr., given that the existing nine pig farms and mills emit 92,000 MTCO2e/yr. This IFC investment both expands industrial livestock operations and significantly increases GHG emissions without any actions for emissions (or emissions intensity) reductions included in the ESAP.[22]

This is not the only pig producer receiving financial support from IFC in Vietnam. The project BaF Vietnam Agri (#45972, also currently active) provided $38 million to finance an integrated pork producer in Vietnam. This loan financed two feed mills, one slaughterhouse, and 31 pig farms. This expansion is intended to increase not only BaF's pig production capacity from its current 110,000 pigs per year across 13 farms, but also its emissions, which are estimated to be 532,000 MTCO2e in 2023.

Both of these investments support large-scale expansion of highly emitting livestock operations and lack any steps, apart from energy audits (fn. 22) within the ESAP to avoid or mitigate the emissions caused by these operations. If IFC continues to finance such operations without addressing the GHG emissions, Vietnam and other recipient countries will be incentivized to depend on emissions-intensive development rather than low-emitting projects that work sustainably toward food security. This also appears inconsistent with the Paris alignment requirement to avoid carbon lock-in.

22 IFC replies that "As stated in the ESRS, the feed mills undergo annual energy audits to minimize energy needs. In term of energy needs, feed mill consumes much more energy than the pig farms. This explain[s] the prioritization made in term of targeted operations (feed mills versus pig farms). In addition, as the pig farms were greenfield, the technical design of these farms were already mainstreaming BAT, from an energy standpoint." This is noted. Audits may reduce losses, but do not assure overall low carbon intensity of the operations (e.g. they may still be powered by fossil fuels). Further, the question remains whether supporting energy-efficient industrial pig farms reduces poverty or improves food security, relative to other investments.

LIMITED DUE DILIGENCE AND TRANSPARENCY IN CRISIS RESPONSE (RSE) PROJECTS

Within the second period projects came to be financed via a new window, the Real Sector Crisis Response Envelope (RSE). This finance envelope was created as a part of the Fast Track COVID-19 Facility to respond to the impacts of the pandemic on projects and supply chains. While rapid-disbursing finance can be helpful in a crisis such as the pandemic, and all RSE recipients had to be existing IFC clients in good standing, there were still many risks associated with these projects.

RSE projects have their own disclosure and E&S due diligence policies. Funding for all RSE projects is approved under delegated authority from the Board (except for financing larger than US $100 million or E&S Category A projects). According to IFC's RSE disclosure procedure, "for projects with no new material E&S risks and impacts, public disclosure will occur post-facto via an update to existing client disclosure materials. For those with material new E&S risks and impacts that cannot be mitigated under existing client E&S mitigation arrangements, these will be subjected to mainstream IFC E&S diligence and disclosure processes."[23]

Within our review, we identified seven RSE projects. Of these seven projects, only two had their own ESRS: RSE Nyva CL (#44245), a $20 million loan, and RSE COVID Omarsa (#44456), a $13 million loan. Both projects included finance for the expansion of operations, thus requiring an ESRS and Environmental and Social Action Plan (ESAP) to address these new E&S risks.

RSE Bel Ga MM (#44437) did not include an ESRS despite including finance ($4 million) for the expansion of the company's poultry hatchery.[24] Given the new E&S risks associated with this, at a minimum the ESAP for the previous $7.5 million investment in Bel Ga Myanmar (#38236) should have been updated.

Even the projects only financing additional working capital towards existing projects, therefore not requiring their own ESRS by IFC policy, failed to adequately update the ESAP, if it was updated at all. RSE COVID Parag (#43983, $41.2 million loan) and RSE COVID Dodla II (#44940, $8.1 million equity) did not have any updates. In many cases, the ESAP items were only given a new timeline for completion rather than evaluating the need for changes to existing items or the addition of new, more relevant items, especially for the application of PS 6. Many of

23 Report to the Board of Directors on a Proposed Investment in IFC Fast Track COVID-19 Facility, 2020, para. 11, p. 6.

24 IFC replies that "Such operation is benign from an E&S standpoint. In addition, hatchery undergo[es] an ESIA process, which T&Cs [terms and conditions] are being monitored by local environmental authorities, as per environmental licenses."

those that did not apply PS 6 were RSE projects without sufficient ESRS updates.

PROJECTS BENEFITING HIGH-INCOME COUNTRIES

In addition to concerns with loans financing livestock operations and animal products, we also identified feed-related projects (crop production, procurement, and processing) without clear development benefits. The projects Agrocorp Corporate Loan (#45872, $32.5 million including $14.5 million IDA) and Olam WC Loan (#46759, $200 million), both in the second period, finance working capital to successful corporations headquartered in Singapore, which supply agricultural commodities procured from non-borrower countries – Canada and Australia for Agrocorp Corporate Loan and Canada, Germany, and the US for Olam WC Loan. IFC should instead be supporting procurement from IDA and IBRD borrower countries.[25]

CONCERNS WITH PERFORMANCE STANDARDS

Many projects we examined, including ones justified on environmental grounds, have mixed environmental impacts. One such project is LDC Brasil (#44281), which provides $200 million (a $100 million IFC loan plus $100 million from parallel lenders) to Louis Dreyfus Company (LDC) to finance [future] deforestation-free suppliers of soy and corn in Brazil by establishing a thorough supply chain risk screening and monitoring platform. LDC is a leading agricultural commodity processor and merchant based in the Netherlands with US$59.9 billion in revenue in 2022, putting it in the upper half of Fortune's Global 500. However, civil society groups find that LDC still has a poor track record on deforestation, land grabbing, and other environmentally and socially destructive practices.[26] Given this, we question the timing of support for LDC and its suppliers before they have made more progress toward compliance and the potential incentive for expanding the agricultural frontier before the risk screening is fully effective.

Beyond this, IFC does not consider the project to have impacts that must be managed in a manner consistent with PS 3 on resource efficiency and pollution prevention for either LDC or the suppliers, even though both LDC and the suppliers use large amounts of resources and potential pollutants in their operations.

SUPPLIER CODES OF CONDUCT: ONLY PARTIALLY APPLIED

We also assessed projects' supplier codes of conduct for the animal product finance projects. These codes cover the procurement of dairy from cattle farms. In the first period, only two of the five projects (with $29.46 million of $261.95 million total) included supplier codes of conduct, and only one ($20M) of those two specifically included environmental impacts in the supplier code of conduct. In the second period, six of eight animal product loans ($1.149 billion of $1.237 billion total) included supplier codes of conduct, four of which made specific reference to environmental impacts, including conversion of natural habitats. This leaves four projects either without any supplier code of conduct or without references to environmental impacts. Three of these were RSE projects. While we saw some improvement in the creation and implementation of supplier codes of conduct between the two periods, the inconsistencies of this practice in RSE projects are a significant E&S concern and a missed opportunity to achieve additionality.

Supplier codes of conduct also play an important role in animal feed-related projects, for procurement of crops such as soy and corn from various suppliers for processing. But we found these lacking as well. The project Anyou III (#46206, $38.5 million), invested in August 2023, provides finance for the construction and operation of additional feed mills for Anyou Biotechnology Group. This project's ESAP requires that only 15 percent of the company's total annual soymeal and soybean oil procurement volume be compliant with this supplier code of conduct by 2027, with no anticipated date for 100 percent compliance.

Providing finance to companies that do not require supply chains to be compliant and are likely violating Performance Standards again calls into question whether IFC's engagement is contributing to raising its

25 IFC replies that "IFC funding was structured to finance procurement from emerging markets such as Africa and Asia.... Both projects were financed due to the emergency situation, due to the [invasion of] Ukraine." While this may be true, 1) it was not evident in our review, and 2) it doesn't change the overall profile of these companies, based in a high-income country with access to capital markets/ commercial finance.

26 IFC replies that "This is... not identified during the E&S appraisal process. This LDC investment, in fact, has the potential to have a significant sustainability replication effect among all traders." This would be important if true. At the same time, IFC states that "IFC financing limited itself to grain sourcing, not processing." Meanwhile, civil society organizations expressed concern in 2022 that "the further entrenchment of industrial monocropping by LDC" and other grain traders "in the Cerrado and elsewhere is inconsistent with any coherent notion of sustainable development." See https://stopfinancingfactoryfarming.com/controversial-ifc-loan/.

clients' ESG performance and IFC's additionality beyond providing fixed-rate long-term local currency finance, as in the case of Anyou, or other finance on terms not commercially available.

RISK CATEGORIZATION

Given the risks[27] generally associated with industrial animal agriculture – GHG emissions; spread of disease; antimicrobial resistance; pollution from use of chemicals, pesticides, and animal waste; danger to slaughterhouse/ meatpacking workers; among others – it is surprising that of all the projects analyzed, only two were rated risk category A – and neither were livestock projects. Given the range of places (all regions) and livestock (pig, poultry, dairy, and beef) financed, one would expect that at least some, if not all, livestock projects would be assessed to meet the category A threshold of "potential significant adverse environmental and social risks and/or impacts that are diverse, irreversible or unprecedented." Consider, for example, the ongoing risk of transmission of bird flu to cattle and its potential to jump to humans.[28]

IFC's finding that risks and impacts from all of its livestock projects "are limited, site-specific, and can be readily addressed through generally accepted mitigation measures" is contrary to the well-documented significant material risks[29] of the sector and points to systematic under-categorization. While risks are context-specific, all installations at the EBRD for the intensive rearing of poultry or pigs above a certain size[30] are categorized as A. IFC should consider whether its projects face the same risks, or perhaps more serious ones, and act accordingly.

Conclusions

Comparing the two observed periods, while the number of IFC's livestock-supporting operations has grown modestly (33 in Jan. 2020-June 2023 vs. 28 in July 2016-Dec. 2019), the amount of finance ($2.62B latest vs. $862.8M earlier) has grown dramatically as it more than tripled.

As the total support for livestock, including industrial livestock, operations is increasing, greater attention should be given to the E&S concerns of these operations given their significant negative impacts on the climate, environment, and animal and human health.[31] With these concerns in mind, IFC should decrease finance for industrial livestock operations and shift to more sustainable means of promoting development and food security in line with the World Bank's Evolution Roadmap.[32]

Despite stated commitments to Paris Alignment, IFC is not taking sufficient steps to address the livestock sector's significant emissions. This needs to change. Transparency systems, including supplier traceability, are fundamental instruments in curbing deforestation and other impacts of large-scale livestock. IFC must lead in promoting these.[33] IFC similarly needs to address application of its Performance Standards, especially in RSE projects. If IFC wants to continue increasing its agricultural finance, it should address these challenges to provide additionality and support sustainability through the expansion of its financing.

Recommendations:

While our review of these livestock-related projects identified specific areas of improvement for projects noted above, we also found other trends among projects that need to be addressed. With that in mind, we recommend for livestock-related projects that IFC:

- Consider the current significant GHG emissions of IFC-financed livestock operations as a critical barrier to achieving Paris Alignment and adjust the portfolio to align with current science and the WB's

27 IFC's own Practices for Sustainable Investment in Private Sector Livestock Operations (Oct. 2022) notes (p. 3) "a rise in greenhouse gas (GHG) emissions related to animal husbandry and food production, an increase in land conversion to grow crops for animal feed, and more risks for deforestation and the associated loss of biodiversity. In addition, there are other concerns related to...animal health and biosecurity, animal welfare, and antimicrobial use."

28 See Bird flu in US cows: where will it end? "Scientists worry that the H5N1 strain of avian influenza will become endemic in cattle, which would aid its spread in people."

29 "While industrial farm animal production has benefits, it brings with it growing concerns for public health, the environment, animal welfare, and impacts on rural communities". - Pew Commission on Industrial Farm Animal Production (US), as reported in Factory Farming: Assessing Investment Risks (FAIRR Initiative, Oct. 2016)

30 EBRD's Category A list includes three relevant types of projects: "27. Large-scale primary agriculture or forestation involving intensification, land use change or conversion of priority biodiversity features and/ or critical habitats. 28. Plants for the tanning of hides and skins where the treatment capacity exceeds 12 tonnes of finished products per day. 29. Installations for the intensive rearing of poultry or pigs with more than: (a) 85,000 places for broilers, 60,000 places for hens; (b) 3,000 places for production pigs (over 30 kg); or (c) 900 places for sows."

31 IFC replies that "We are in agreement and [this] is reflected in the increased PS6 assessment in the second period as pointed out by the report."

32 The Roadmap suggests (paras. 29-30) the WBG should explore "standard-setting and promotion of transparency, as in the recently launched Food Security Dashboard." While not specific to food security, it also suggests IFC continue work relevant to a sustainable food system, such as with "peer DFIs and standard setting bodies to develop global taxonomies and standards for investment products to operationalize the Sustainable Blue Economy Finance Principles and the Biodiversity Finance Reference Guide." It also notes that the WBG has pioneered, and should advance, its work on "green bonds, blue bonds and other thematic and sustainability linked bonds and loans for client countries and firms while innovating structured finance solutions that can crowd in institutional investors."

33 Multiple options are available. For Brazil, for example, see Traceability Initiatives in the Beef and Leather Value Chains in Brazil (Instituto de Pesquisa Ambiental da Amazônia/IPAM), 2022. IFC reports that it already "is in a leading position, where all DFIs are asking us to show case our risk assessment practices for supply chain risk assessment. [IFC] provided such training at the European DFIs' meeting in October 2023. In addition, IFC is developing case-studies for showcasing such best practices." This is welcome news.

own guidance, including carbon lock-in tests and alternatives analyses for high-emitting projects.

- Require new clients to disclose sources (with full traceability) for all livestock, livestock products, and livestock feed, and uses of livestock feed (livestock operations supported), at least annually.[34] Refuse new funding to existing clients who lack a time-bound plan for achieving supplier traceability with the goal of net zero GHG emissions from land-use change.
- Consistently disclose ESIAs and update project summaries to reflect current conditions and information at least annually.
- Consistently disclose the emissions of GHGs and other pollutants associated with all financed operations publicly in annual or more frequent monitoring reports.
- Consistently disclose what animal welfare standards are applied,[35] where, and how many animals are covered across the supply chain. List the measures avoided or taken to ensure compliance with OECD animal welfare guidelines, as codified in the most recent Responsible Business Conduct guidance.[36]
- Consistently apply Performance Standard 6 in agriculture and livestock projects, as well as other projects with suppliers that manage living natural resources. Require sufficient mitigation action – including implementation of relevant industry standards[37] and supplier codes of conduct – to adequately address all associated risks.
- Set a higher bar for its additionality than merely providing more favorable financial terms compared to what is commercially available. Given in particular the negative externalities of the livestock sector, any finance for the sector must require significant progress in reducing these both before and during the finance term, along with full and timely disclosure of residual impacts. The goal should be 100% sustainability– e.g. zero deforestation in the supply chain; net zero GHG emissions; local land, resource, and labor rights fully respected; etc.--before exit.

In sum, these recommendations would mean shifting IFC's financing from supporting expansion of industrial livestock operations to supporting their transformation, as recommended by the World Bank's *Recipe for a Livable Planet: Achieving Net Zero Emissions in the Agrifood System*.[38] If IFC remains in the livestock sector at all, it should focus on mainstreaming emissions reductions and monitoring through support for agro-ecological and Paris-aligned practices, including conserving, restoring and maintaining forests and other natural ecosystems, in operations that benefit local communities in improving food security and sustainability.

34 IFC replies that "Disclosure of client's traceability and risk screening of suppliers would be commercially sensitive. However, high-level explanation of E&S review has been done since the last four years."
35 IFC notes "This is done consistently since Feb 2020."
36 IFC notes that it "follows the World Organization for Animal Health (WOAH) during appraisal and Global GAP for livestock (as per ESAP)."
37 Such as compliance with the EU Deforestation Regulation where possible; where not possible (and in line with the 2nd bullet point above), achieving supply chain traceability and reporting as well as a deforestation-free commitment with a target date of 2025. "Deforestation-free" means that client products and their raw materials are sourced from areas not subjected to deforestation or forest degradation.
38 IFC replies that "We are in full agreement. This is exactly what we seek to do in our projects when we work with our clients." For more on livestock sector transformation, see Priority areas for investment in more sustainable and climate-resilient livestock systems, Camila Bonilla-Cedrez, Peter Steward, Todd S. Rosenstock, Philip Thornton, Jacobo Arango, Martin Kropff & Julian Ramirez-Villegas, Nature Sustainability, published online: 29 June 2023.

FOR FURTHER INFORMATION ON THE ISSUES RAISED IN THIS REPORT, PLEASE CONTACT BANK INFORMATION CENTER AT:

1023 15th St. NW, 10th Floor,
Washington, DC 20005

Email: info@bankinformationcenter.org