
**President's report on a proposed private sector
Global Environment Facility grant to Grameen Crédit
Agricole Foundation under the Challenge
Programme for Adaptation Innovation**

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Action: The Executive Board is invited to approve the recommendation contained in paragraph 21.

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President's report on a proposed private sector Global Environment Facility grant to Grameen Crédit Agricole Foundation under the Challenge Programme for Adaptation Innovation

I. Background and compliance with IFAD policies

1. The Global Environment Facility (GEF) Challenge Programme for Adaptation Innovation provides seed funding for innovative initiatives designed to help countries most vulnerable to climate change cope with the worsening climate crisis. Concept notes from three private sector entities – BNP Paribas (BNPP), Grameen Crédit Agricole Foundation (GCAF) and Cropin Technologies – were submitted to the GEF Challenge Programme in September 2021. In November 2021, GEF invited these organizations to further elaborate their project concepts through the completion of GEF project identification forms (PIFs).¹ The GEF Challenge Programme mandates one of the 18 GEF implementation agencies to lead the selected projects. Due to its innovative nature and robust connection to smallholders' climate resilience, IFAD was recommended by GEF as implementing agency for these projects. IFAD's technical specialists and country teams collaborated with the three private sector entities to create the PIFs, which were submitted to GEF in March 2022. GEF approved the PIFs in June 2022, and requests for endorsement by the GEF Chief Executive Officer (CEO) were approved in May 2023.
2. In accordance with the IFAD Private Sector Engagement Strategy (2019–2024), the IFAD Regular Grants Policy, the IFAD supplementary fund guidelines and the Delegation of Authority Framework, all funds granted to private sector entities must be approved by the Executive Board.
3. This report presents the GCAF grant in support of the Indicators and Framework for Climate Change Adaptation and Biodiversity Conservation Finance for Smallholders and Rural Communities (IndFraFin CC). This grant seeks to address the limited availability of smallholder adaptation finance by developing and piloting a standardized framework for assessing the climate and biodiversity risks and impacts of inclusive rural financial service provider (IRFSP) smallholder climate change adaptation (CCA) loan portfolios. This will help IRFSPs verify performance and attract private and public capital for onlending to smallholders making CCA investments.
4. **The GEF Challenge Programme for Adaptation Innovation** underscores the crucial role of the private sector in addressing climate resilience, especially in developing and least developed countries. The Challenge Programme aims to spur innovative ideas for building climate-resilient societies, supply chains, food systems and economies. It actively promotes new partnerships, aligns with the environmental goals of programme countries and taps the expertise of leading companies, financial institutions and technology developers.
5. In accordance with IFAD's review process of GEF proposals, comprehensive quality assurance was carried out on IndFraFin CC. During the design phase, the concept and full proposal was assessed against GEF and IFAD funding criteria by the Environment, Climate, Gender and Social Inclusion Division (ECG), Operational Policy and Results Division, Office of the General Counsel, Financial Controller's Division (FCD) and Financial Management Services Division (FMD), and approvals from directors of ECG and the Sustainable Production, Markets and Institutions

¹ 418 submissions were received in GEF's 2021 call for proposals. Ten were selected, including three with IFAD as GEF implementing agency. Pre-selection criteria included: (i) project/programme quality; (ii) equitable distribution among eligible countries and regions; (iii) degree of innovation; (iv) potential to catalyse private sector investment for climate change adaptation at scale; and (v) support for priority sectors and themes.

Division and Associate Vice-Presidents of the Strategy and Knowledge Department and Programme Management Department were sought before submission to GEF. The fiduciary due diligence process was completed by FMD, which involved assessing the financial management risks inherent in the design and the capacity of the executing entities, and reviewing their legal status. Financial crime due diligence of the executing entities was performed by FCD to identify and prevent any financial misdeeds such as fraud, money laundering and corruption. The availability of grant funds was confirmed through GEF's CEO approval letters.

6. The project adheres to IFAD's Inclusive Rural Finance Policy, prioritizing beneficiaries' financial needs and market-building interventions for rural resilience. The project fosters collaboration with diverse financial channels and establishes partnerships with traditional and emerging actors, including fintechs and public development banks. It underscores the role of inclusive rural finance supporting CCA. It is also aligned with IFAD's Information and Communication Technology for Development (ICT4D) Strategy by contributing to scalable digital solutions, partnerships and knowledge management.

II. The proposed project

IndFraFin CC will be executed by Grameen Crédit Agricole Foundation in Benin, Senegal and Zambia.

7. IndFraFin CC is a two-year project to develop and pilot an inclusive smallholder CCA loan verification system in collaboration with IRFSPs, linked to three ongoing IFAD programmes in Benin, Senegal and Zambia, with two aims:
 - (i) Improve IRFSP CCA impact; and
 - (ii) Develop and pilot investments via a standardized framework assessing IRFSP smallholder loan portfolio CCA and financial performance risk.
8. The project will use digital verification technology, including a climate credit risk application, customized climate lending taxonomies and a standardized framework for verifying IRFSP smallholder CCA lending climate outcomes. The pilot will link these innovations through a digital platform for assessing smallholder CCA loan portfolios. The project complements but will not overlap with a BNP Paribas-IFAD GEF Challenge Programme grant that will develop an IRFSP CCA loan portfolio certification (ensured through clear descriptions of eligible expenditures in legal agreements and monitoring and supervision of the grants).²
9. The overall goal of the project is to enhance financing for agriculture production practices and technologies reducing smallholder vulnerability to climate change while increasing incomes. The objectives are to strengthen institutional frameworks, as well as investor and IRFSP capacity, to manage smallholder farmer climate risk and identify and finance smallholder farmers CCA practices and technologies.
10. Selected IRFSPs will undergo capacity-building for and access to YAPU Solutions, a fintech based in Germany, digital climate credit risk application platform for IRFSPs providing loans to smallholder farmers investing in CCA methods and technologies. Implemented in Benin, Senegal and Zambia through IFAD-financed projects currently under implementation in these locations, the project will reach 17,500 beneficiaries from 3,500 households. Additionally, IRFSP staff will be trained on CCA assessment and identification of practices and technologies aiding smallholder farmers. GCAF will own the blended finance instrument, which will be used to invest in IRFSPs and to leverage new private sector funding supporting smallholder CCA.

² A GEF Challenge Programme grant for Cropin Technologies was approved at the September 2023 session of the Executive Board.

11. The two-year project has three components:
12. **Component 1. Establishment of a blended finance vehicle.** The aim of this component is to pilot a smallholder CCA lending verification scheme for use in component 2. It has four activities:
 - **1.1. Definition of funding and processes conditions,** which includes: (i) determining risk adjusted smallholder loan conditions (e.g. interest rate, repayment period, etc.); (ii) IRFSP loan officers and management training in the use of the climate credit risk management application; (iii) application of CCA outcome verification system; and (iv) management of a CCA risk software platform allowing IRFSPs to assess and manage the CCA risk of smallholder portfolios.
 - **1.2. A blended finance scheme based on lending outcomes** will develop terms for funding a line of credit to attract private and public sector investments (for component 2).
 - **1.3. Institution reporting schemes** will develop a CCA impact smallholder loan portfolio performance verification framework, providing investors with an accurate, verifiable and transparent loan reporting system.
 - **1.4. Operationalization of indicators, framework and a verification system** will be used to report IRFSP loan portfolio performance through a digital platform, providing IRFSPs and investors real-time investment risk management information to guide the proposed blended finance vehicle.
13. **Component 2. Piloting of blended finance vehicle.**
 - **2.1. A blended finance vehicle pilot** will identify four IRFSPs for investment from a blended finance vehicle. GCAF will fund and test the pilot, providing feedback for refining and scaling the vehicle to attract investments.
 - **2.2. Training to IRFSPs on indicators and verification tools** will support IRFSP training employing CCA indicators for improved portfolio management and reporting, maximizing the blended finance vehicle's environmental and financial returns.
 - **2.3. IRFSP lending and portfolio management pilot.** IRFSPs will pilot the CCA risk application over six months through smallholder lending, in addition to piloting fund return verification. This will generate learning for scaling the blended finance vehicle.
14. **Component 3. Knowledge sharing and stakeholder engagement for scaling.** Lessons learned will be compiled with two objectives: (i) improving and refining project activities; and (ii) sharing with national and international programme stakeholders, key knowledge products developed during implementation.

III. Expected outcomes/outputs

15. The project will have the following outcomes/outputs:
16. **Outcome 1.** Public and private investors enabled to provide financing to IRFSPs improving their capacity to finance smallholder CCA.
 - (i) **Output 1.1.** Investment product for CCA smallholder finance product for finance for smallholders established and to be used by investors.
 - (ii) **Output 1.2.** Investment product for smallholder CCA finance piloted with four IRFSPs in participating countries.
 - (iii) **Output 1.3.** Blended finance framework for smallholder CCA finance designed and tested with private and public investors.

17. **Outcome 2.** Enhanced knowledge and stakeholder engagement.
 - (i) **Output 2.1.** Pilot results assessed through a consultative process with stakeholders and results and lessons learned disseminated.
 - (ii) **Output 2.2.** Project implementations supported by a monitoring and evaluation (M&E) strategy with semi-annual reports.

IV. Implementation arrangements

18. IFAD will oversee the project, ensuring that progress and resource management is aligned with the GEF-approved budget. GCAF will lead project execution, ensuring effective collaboration with partners. The Climate and Biodiversity Inclusive Finance Institute (CBIFI), a non-profit entity recently formed and sponsored by BNPP, will implement technical and CCA activities. CBIFI will support GCAF for developing and piloting financial and blended finance products. YAPU Solutions will provide and manage software, IRFSP training, the CCA credit risk platform and loan reporting.
19. The GCAF project management unit (PMU) will oversee project financial management. The disbursement arrangements outlined in section 3.3 of the IFAD General Provisions will be applied and the project will submit certified statements of expenditure (SOEs) on a biannual basis. The project financial reporting will comply with the IFAD standard template. GCAF will account for project expenditures separately from their own operations and based on a chart of accounts allowing for follow-up of expenditures by categories, by components and by sources of funds. The project SOEs concerning GEF grant's expenditures will be audited annually by an external audit firm in line with the International Auditing Standards. The recipient will formalize contractual arrangements with implementing partners such as CBIFI and YAPU Solutions through performance-based memorandums of understanding and contracts based on the delivery of acceptable financial and progress reports. Given the recipient's limited experience with IFAD-funded projects and a relatively complex implementation with multiple partners and extended geographical scope, the financial management risk at design is assessed as substantial. Disbursements will be made to the recipient only after GEF grant funds have been received by IFAD.
20. The resources mobilized for IndFraFin CC were identified in consultation with partners during the project identification form preparation and development of the CEO endorsement requests in 2022. To complement the GEF grant, additional in-kind and indirect support (aggregate value approximately US\$4,054,800) was mobilized as follows: indirect and in-kind support from ongoing IFAD-financed projects currently under implementation, aggregating approximately US\$2.5 million, namely: Rural Youth Agripreneur Support Project (2019–2027) in Senegal, Agricultural Development and Market Access Support Project (2018–2025) in Benin, and Rural Finance Expansion Programme (2011–2024) in Zambia. This support will be largely in the form of expenditures to support climate adaptation by farmers included in approved work plans and budgets in these projects. In addition, US\$1,558,000 in grant cofinancing from GCAF for investments in IRFSP will support pilots of the blended finance vehicles developed under this grant, and contribute to project management costs. To mitigate risks, IFAD will provide training and support to the PMU throughout implementation. GCAF will ensure project accounting software can generate financial information meeting IFAD requirements. There are no deviations from the standard procedures for financial reporting and audits.

V. Indicative project costs and financing

Table 1
Costs by component and financier
 (United States dollars)

<i>Components</i>	<i>GEF</i>	<i>In-kind/ indirect contribution from IFAD- financed projects*</i>	<i>GCAF (cofinancier and in-kind contributions)</i>	<i>Total</i>
Establishment of dedicated financial product for CCA conservation finance for smallholders and rural communities	294 270	1 667 116	1 500 000	3 461 386
Knowledge management and M&E	71 026	469 975	-	541 001
Project management	36 529	362 909	54 800	454 238
Total	401 825	2 500 000	1 554 800	4 456 625

* IFAD cofinancing consists in activities carried out by existing IFAD-funded projects in the target areas that synergize and contribute to the objectives of this initiative. In-kind contributions are ongoing programme activities related to supporting smallholders, enterprises and financial service providers' CCA investments and activities.

Table 2
Costs by expenditure category and financier
 (United States dollars)

<i>Expenditure category</i>	<i>GEF</i>	<i>In-kind contribution from IFAD- financed projects</i>	<i>GCAF (cofinancier and in-kind contributions)</i>	<i>Total</i>
Consulting services	293 197	1 824 158	39 986	2 157 341
Training	61 596	383 228	8 400	453 224
Travel	16 800	104 523	2 291	123 614
Workshops	30 232	188 091	4 123	222 446
Loan to IRFSPs	-	-	1 500 000	1 500 000
Total	401 825	2 500 000	1 554 800	4 456 625

VI. Recommendation

21. I recommend that the Executive Board approve the proposed GEF-funded grant to GCAF, for which IFAD will act as implementing agency, in terms of the following resolution:

RESOLVED: that the Fund, in order to finance, in part, the Indicators and Framework for Climate Change Adaptation and Biodiversity Conservation Finance for Smallholders and Rural Communities: leveraging private and public finance, shall provide a grant of four hundred one thousand and eight hundred twenty-five United States dollars (US\$401,825) using GEF resources to Grameen Crédit Agricole Foundation upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented to the Executive Board herein.

Alvaro Lario
 President

Results-based logical framework

Project 2 - IndFraFin CC Adapt

Results Hierarchy	Indicators				Means of Verification			Assumptions
	Name	Baseline	Mid-Term	End Target	Source	Frequency	Responsibility	
Outreach	1 Persons receiving services promoted or supported by the Project				KPI and SPT Verification	Annual	GCAF-CBIFI	By "Persons receiving services promoted or supported by the Project" it is considered the clients and household members that will have access to finance due to the specific financial product (Product 1) that will be provided by GCAF to 4 IRFSPs. For the sake of computation, it has been assumed here that the 4 loans provided by the GCAF will be disbursed in full within the 2 years of the Project, nevertheless the financing provided by the GCAF has normally longer term (3 years usually), and the amount disbursed by the IRFSPs strongly depend on their portfolio rollout velocity. In case not all the financing received is disbursed during the Project time, the targets
	Males - Males	0	3500	7000				
	Females - Females	0	5250	10500				
	Young - Young people	0	5250	10500				
	Indigenous people - Indigenous people	It will be known only once the IRFSPs will be selected during the Project implementation (it depends on the geographical distribution of their portfolio and specific targets of the IRFSPs)	It will be known only once the IRFSPs will be selected during the Project implementation (it depends on the geographical distribution of their portfolio and specific targets of the IRFSPs)	It will be known only once the IRFSPs will be selected during the Project implementation (it depends on the geographical distribution of their portfolio and specific targets of the IRFSPs)				
	Total number of persons receiving services - Number of people	0	8750	17500				
	Male - Percentage (%)		40%	40%				
	Female - Percentage (%)		60%	60%				
	Young - Percentage (%)		60%	60%				
	1.b Estimated corresponding total number of households members							
Household members - Number of people		5	5					
1.a Corresponding number of households reached					Annual	GCAF-CBIFI		

	Women-headed households - Households		It will be known only once the IRFSPs will be selected during the Project implementation (it depends on the geographical distribution of their portfolio and specific targets of the IRFSPs)	It will be known only once the IRFSPs will be selected during the Project implementation (it depends on the geographical distribution of their portfolio and specific targets of the IRFSPs)				provided here should be reconsidered prorata for the amount disbursed during the Project time. For the computation of the targets the additional assumption have been used: the average loan amount is USD 400; The Foundation Grameen Credit Agricole will provide funds for USD 1,400,000 to finance IRFSPs to support the climate change adaptation needs of their clients, with, on average, 5 people in the household of clients.
	Non-women-headed households - Households		It will be known only once the IRFSPs will be selected during the Project implementation (it depends on the geographical distribution of their portfolio and specific targets of the IRFSPs)	It will be known only once the IRFSPs will be selected during the Project implementation (it depends on the geographical distribution of their portfolio and specific targets of the IRFSPs)	KPI and SPT Verification			
	Households - Households	0	1750	3500				
Project Goal Enhance financing for practices and technologies that support smallholders to reduce their climate change vulnerability.	Number of IRFSPs that receive financing from the Investment Product for Climate Change Adaptation Smallholder Finance (Product 1)							
	Number of IRFSPs that receive financing from the Investment Product for Climate Change Adaptation Smallholder Finance (Product 1)	0	4	4	Financing report	Annual	GCAF	It is assumed that the 4 investments for the 4 IRFSP are disbursed all during the first year.
Development Objective	Strengthening institutional framework and investors and IRFSPs capacity to assess and manage climate risks of their smallholder farmers client, and identify and finance climate							

	change adaptation practices and technologies for smallholder farmers and rural communities							
	Number of policy and plans that will support to mainstream climate change resilience	0	4	6	Documents produced	Annual	GCAF-CBIFI	1 - Manual for the investment product for Climate change adaptation; 4 plans for product 1, one per each IRFSP, adapted to their specific case, including their KPIs, SPTs, and verification process per each IRFSP. 1 operations manual for blended finance. It is assumed that the 4 investments for the 4 IRFSP are disbursed all during the first year.
	Number of staff in Ss trained to assess and manage climate risks and identify and finance climate change adaptation practices and technologies		40	80	Training report	Annual	GCAF-CBIFI	20 staff (among which loan officers, heads of branches, staff at HQ) per each IRFSP, will be trained on climate risks and financing of adaptation solutions.
Outcome 1. Public and private investors are enabled to provide improved financing conditions to the Financial Service Providers (IRFSPs) that improve their capacity to finance climate change adaptation for smallholders and rural communities. (Capacities of 4 IRFSPs in 3 countries – 4 IRFSPs in total - strengthened to increase climate	Number of IRFSPs that receive financing for climate change adaptation through dedicated Product (i.e., Product 1)				Financing report	Annual	GACF	It is assumed that the 4 investments for the 4 IRFSPs are disbursed all during the first year.
	Number of IRFSPs that receive financing for climate change adaptation through dedicated Product (i.e., Product 1)	0	4	4				
	Persons receiving services promoted or supported by the Project				KPI and SPT Verification	Annual	GCAF-CBIFI	Same assumptions as reported in the assumption for "Outreach"
Household members - Number of people	0	8750	17500					

finance to smallholder producers and rural communities)	Households (number) - Households	0	1750	3500				
	Number of policy and plans that will support to mainstream climate change resilience				Documents produced	Annual	GCAF-CBIFI	First version of 1 - manual for the investment product for Climate change adaptation, 4 plans for product 1, one per each IRFSP, adapted to their specific case, including their KPIs, SPTs, and verification process per each IRFSP. 1 operations manual for blended finance. 20 staff (among which loan officers, heads of branches, staff at HQ) per each IRFSP, will be trained on climate risks and financing of adaptation solutions. Same assumptions as reported in the assumption for "Development Objectives"
	Number of policy and plans that will support to mainstream climate change resilience	0	5	5				
	Number of staff in IRFSPs trained to assess and manage climate risks and identify and finance climate change adaptation practices and technologies				Training report	Annual	GCAF-CBIFI	
Number of staff in IRFSPs trained to assess and manage climate risks and identify and finance climate change adaptation practices and technologies	0	40	80					
Output 1.1: Investment Product for Climate Change Adaptation Smallholder Finance (Product 1) established. This is a dedicated financial product for Climate Change adaptation finance for smallholders and rural communities to be used by each individual investor. (1 white paper for investment in climate change adaptation; 1 project manual; 1 manual on	Number of policy and plans that will support to mainstream climate change resilience				Documents produced	Annual	GCAF-CBIFI	first version of 1 - manual for the investment product for Climate change adaptation Same assumptions as reported in the assumption for "Development Objectives"
Number of policy and plans that will support to mainstream climate change resilience	0	1	0					

indicators; 1 software platform to verify adaptation investment ready to be used)								
Output 1.2: Investment Product for Climate Change Adaptation Smallholder Finance (Product 1) piloted with 4 IRFSPs in 3 selected countries (4 IRFSPs in total). (Assessment of present performance of climate finance for the 4 IRFSPs; Training on climate change risks and adaptation delivered to management and field officers of 4 IRFSPs; Delivery of 4 loans to 4 IRFSPs in 3 countries dedicated to expand financing for climate change adaptation for their smallholder farmers clients; Indicators and software platform piloted with 4 IRFSPs; Verification of improvements in performance on climate finance done for 4 IRFSPs)	Number of IRFSPs that receive financing for climate change adaptation through dedicated Product (i.e., Product 1)				Financing report	Annual	GCAF	
	Number of IRFSPs that receive financing for climate change adaptation through dedicated Product (i.e., Product 1)	0	4	4				
	Persons receiving services promoted or supported by the Project				KPI and SPT Verification	Annual	GCAF-CBIFI	
	Household members - Number of people	0	8750	17500				
	Households (number) - Households	0	1750	3500	Training report	Annual	GCAF-CBIFI	
Number of staff in IRFSPs trained to assess and manage climate risks and identify and finance climate change adaptation practices and technologies								
Number of staff in IRFSPs trained to assess and manage climate risks and identify and finance climate change adaptation practices and technologies	0	40	80					
Output 1.3: Blended Finance Framework for Climate Change Adaptation Smallholder Finance (Product 2) designed and tested with private and public investors. (1 Operations Manual for blended finance scheme)	Number of policy and plans that will support to mainstream climate change resilience				Documents produced	Annual	GCAF-CBIFI	1 operations manual for blended finance.
	Number of policy and plans that will support to mainstream climate change resilience	0	0	1				
Outcome 2. Enhanced knowledge and stakeholder engagement	Number of policy and plans that will support to mainstream climate change resilience				Documents produced	Annual	GCAF-CBIFI	Final version of 1 - manual for the investment product for Climate change adaptation.
	Number of policy and plans that will support to	0	0	1				

	mainstream climate change resilience						Same assumptions as reported in the assumption for "Development Objectives"	
Output 2.1: Pilot results assessed through a consultative process with stakeholders (investors, MIVs, DFIs, networks, NGOs, FSPs, among others) and results and lessons learned disseminated (1 Report on project assessment; 1 workshop)	Number of policy and plans that will support to mainstream climate change resilience				Documents produced	Annual	GCAF-CBIFI	Final version of 1 - manual for the investment product for Climate change adaptation.
	Number of policy and plans that will support to mainstream climate change resilience	0	0	1				
Output 2.2: : Project implementation is supported by an M&E strategy (Annual monitoring reports)								No project target indicators associated to this Output.