Investing in rural people

Consultation on the Thirteenth Replenishment of IFAD's Resources

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Executive summary

1. **The Thirteenth Replenishment of IFAD's Resources (IFAD13) comes at a critical moment.** Overlapping crises - from climate change to pandemics to conflict – coincide with a growing awareness that our food systems are unable to provide equitable livelihoods and nutritious food for all in an environmentally sustainable manner. Those suffering the most – poor rural people – are the most vulnerable. Across the Sustainable Development Goals (SDGs) there is one common ambition – to leave no one behind.

2. **Collective, tangible and meaningful actions are required both to address immediate needs and to build resilience for the future.** Humanitarian aid alone, while critical, cannot be the only answer. Investments in building the livelihoods and resilience of rural poor people are urgently needed at scale to transform food systems and reverse alarming trends on SDG 1 and SDG 2 to end poverty and eliminate hunger.

3. **IFAD is stepping up to meet this challenge.** The IFAD13 proposal calls for enhancements to IFAD's business model, bringing together finance, delivery and results to expand its impact. It places an overarching emphasis on creating decent jobs and productive economic opportunities to enhance and protect rural livelihoods. To unleash this potential, three areas will be prioritized during the IFAD13 period: (i) private sector engagement to bolster enhanced rural livelihoods; (ii) climate change adaptation to build the resilience of rural people; and (iii) support in fragile contexts to sustain rural communities. These three priority areas are being put forward because of their prominence among the challenges currently confronting countries where IFAD can and should do more, in line with its mandate and comparative advantage.

4. The 10 key messages of the IFAD13 business model and financial framework are summarized as follows.

Key message 1: IFAD has a critical role in supporting its Member States to help overcome poverty and hunger in rural areas.

5. For over 40 years, IFAD has been supporting small-scale producers and the rural poor who are critically important for local food systems, yet the most disadvantaged. IFAD will continue to focus on its core areas: boosting incomes, local production, markets and resilience. IFAD will invest in improving climate-smart agricultural productivity and integrating small-scale producers into commercial value chains, creating and sustaining local markets. During the IFAD11 period alone, IFAD-financed operations increased the incomes of over 77 million rural people, increased market access for 64 million, and increased the resilience of 38 million.

Key message 2: The financing needs are huge, and the demand for IFAD support is clear.

6. Estimates suggest that between US$300 billion and US$400 billion[1] will be needed annually to 2030 to make food systems inclusive, sustainable and resilient. Without such investments, our food systems will not be able to both produce nutritious food and protect livelihoods and the planet. IFAD has a unique role within the international development architecture, and there is strong and growing demand for IFAD's support across all regions and country income groups. IFAD can meet this demand as long as it can provide the right mix of concessional and non-concessional resources, and non-lending support, adapted to borrowers' needs.

[1] https://documents1.worldbank.org/curated/en/868581632341928753/pdf/Food-Finance-Architecture-Financing-a-Healthy-Equitable-and-Sustainable-Food-System-Executive-Summary.pdf.

Key message 3: Given such large financing needs, IFAD will promote private sector investments at scale.

7. Public sector investments continue to be critical but not sufficient for addressing the challenges faced by rural communities. Public sector resources need to be leveraged to crowd in private sector investments at scale. In IFAD13, IFAD will adopt a three-pronged private sector approach: (i) working with governments to leverage programme of loans and grants (PoLG) investments to create an enabling environment for the private sector to collaborate with and invest sustainably in small-scale producers; (ii) providing financing to private sector entities to unlock and crowd in their investments and financial services to small-scale producers and rural poor people; and (iii) supporting, or leading the origination and structuring of, large-scale investment platforms to attract private sector businesses and financiers as co-investors or parallel cofinanciers. This will also require a new funding model for the Private Sector Financing Programme (PSFP).

Key message 4: IFAD will increase technical and financial support to countries in climate-smart agriculture, environmental sustainability and biodiversity management.

8. Intensifying global shocks, including climate change, call for sustained action to build longer-term resilience of small-scale producers and rural poor people. In IFAD13, the focus will be on promoting greater integration of climate finance at inception and ensuring full integration of climate finance within the overall financing provided to client countries by IFAD. The new additional climate contributions (ACCs) will be part of IFAD's core resources and will provide predictable climate finance up front. This dedicated financing will be channelled towards climate adaptation and mitigation and biodiversity.

Key message 5: IFAD will continue to promote the long-term resilience of rural livelihoods and institutions in fragile contexts.

9. The drivers of fragility have intensified in many rural areas, driven by multiple crises as a result of environmental, geopolitical and socioeconomic hazards. IFAD will continue to promote the long-term resilience of rural livelihoods and institutions in fragile contexts, without straying into humanitarian work. To strengthen its capacity to deliver effectively in fragile contexts, IFAD will use smarter diagnostic tools and approaches, adaptively manage country programme and project cycles, strengthen its internal capacities, and nurture new partnerships in the development-humanitarian-peace nexus and with other international financial institutions (IFIs). Finally, IFAD will strive to maximize resources, across the programme of work, for countries affected by fragility.

Key message 6: IFAD has a global leadership role in ensuring that its focus on gender, youth, social inclusion and nutrition drives impact.

10. Across the IFAD13 priorities, the Fund will continue to devote attention to gender, youth and social inclusion as well as nutrition. This will help to guarantee that poor rural people are not only supported in overcoming poverty, but also empowered, individually and collectively, to drive positive change. In particular, IFAD will strengthen its engagement with women, youth, Indigenous Peoples and persons with disabilities. Partnerships with civil society organizations, farmer organizations and Indigenous Peoples will continue to be IFAD's distinguishing feature and help to strengthen ownership and accountability.

Key message 7: Country programmes will be the core vehicle to deliver results for the rural poor in IFAD13.

11. At the operational level, IFAD's focus will be on aligning programme delivery, with three key enhancements. First, the full range of financing comprising IFAD's programme of work will be better integrated within transformative country programmes. Second, IFAD will continue to strengthen its adaptive programme management, based on more accurate and timely data to enable early and

informed actions. Third, greater emphasis will be placed on enhancing the sustainability and scalability of IFAD investments. This will mean nurturing smart partnerships and alliances, including through South-South and Triangular Cooperation (SSTC), and providing a platform for innovations. Country-level policy engagement (CLPE) will remain a priority.

Key message 8: Smart partnerships will drive impact.

12. IFAD recognizes that delivering impact at scale requires leveraging smart partnerships. In IFAD13, partnerships will be leveraged for policy engagement, financing and delivery. The focus will be on working with other IFIs and global funds on cofinancing opportunities and synergistic actions. IFAD will continue to strengthen collaboration and coordination with the other Rome-based agencies (RBAs) and United Nations agencies through the United Nations Sustainable Development Cooperation Frameworks.

Key message 9: IFAD will consolidate its reforms to continue strengthening its institutional effectiveness.

13. From an institutional perspective, ambitious reforms have already been implemented over previous cycles. In IFAD13, these reforms will be consolidated, while strengthening institutional effectiveness. More predictable strategic budgeting will adequately and efficiently support programme delivery priorities. Additionally, IFAD will increase support to its workforce, notably through upskilling and re-skilling. Comprehensive support will also be provided for the onboarding of new staff, in a decentralized context.

Key message 10: IFAD13 presents an opportunity to scale up financing to those most in need and contribute to Agenda 2030: Investing now in IFAD13 means investing in a resilient future.

14. To finance IFAD13's impact ambitions, a significantly larger programme of work is required, given rising costs and increased hunger and poverty. Management presents four financially sustainable scenarios. Only a strong core replenishment will enable IFAD to maximize resources to low-income countries (LICs) and grants to indebted countries and maximize concessionality. With robust support from Member States, IFAD will be able to assemble, leverage and deliver development finance at the required scale and quality to those most in need. By leveraging its core resources and its AA+ credit rating, IFAD will also be able to expand borrowing - critical for ensuring universality.

15. **IFAD13 presents an opportunity to scale up financing to those most in need and contribute to achieving Agenda 2030.** IFAD13 provides an opportunity for delivering investments at the scale and quality that are needed. IFAD has the potential to increase the programme of work to a level that will result in higher incomes for up to 116 million rural women and men and build the resilience of up to 57 million.

I. Introduction

1. **The business model and financial framework presented in this paper represents IFAD's vision and ambition for the IFAD13 period.** This is an operational, institutional and financial framework through which IFAD will deliver on its impact commitments from 2025 to 2027. This paper and accompanying annexes build on the directions paper presented at the first Consultation session held in February 2023, and reflects Member States' feedback on the Fund's priorities for IFAD13.

A. Investing in IFAD to enhance rural livelihoods

2. **IFAD was established over forty years ago by the United Nations in response to the food crisis of the 1970s.[2]** IFAD has a unique mission as the only multilateral development institution focused on building the livelihoods and resilience of rural populations.

3. **IFAD13 comes at a critical juncture.** The world is again facing a food crisis, this time at an unprecedented level. Globally, most developing countries are more constrained today, with compounding crises hitting them simultaneously. Economic downturns are resulting in debt distress or a high risk of debt distress, rising food insecurity and poverty. A least 54 developing economies are currently suffering from severe debt problems.[3] Together they are home to more than 50 per cent of people living in extreme poverty, and 28 of the world's top 50 most climate vulnerable countries.[4] Against this backdrop, IFAD must step up to the role it was established to fulfil, but it can only accelerate action through an ambitious replenishment based on strong core funding. With strong core funding, IFAD will be able to **maximize the level of grants to indebted countries, especially to those most in need, and maintain its high level of concessionality.**

4. **Over recent years, IFAD has successfully expanded its capacity to assemble, leverage and deliver resources to build rural livelihoods and resilience.** IFAD's support continues to create economic opportunities for rural people, by enhancing their productive capacities, improving their market access, enabling their access to finance, and improving their organizations and capacities to engage with the private sector. IFAD has also been building the resilience of rural livelihoods in fragile contexts as well as to climate shocks and global crises. Additionally, IFAD continues to devote particular attention to ensuring that no one is left behind. IFAD has emphatically demonstrated its ability to deliver against its mandate, through past replenishment cycles. Impact assessments confirm that, in IFAD11 alone, it was able to increase the incomes of 77.4 million rural people and the resilience of 38 million. While IFAD continues to adapt its development strategies and plans to the changing global context, it will continue to protect its core mission and remain laser focused on the impact of its interventions.

5. **Rural populations are a powerful force for change**, as confirmed in the United Nations Department of Economic and Social Affairs' World Social Report on Reconsidering Rural Development (2021).[5] The report highlights that: "The natural capital of humankind lies predominantly in rural areas".[6] Small-scale producers have a critical role in local food systems in developing countries, addressing food

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[2] The Agreement Establishing IFAD defines the objective of the Fund as to "mobilize additional resources to be made available on concessional terms for agricultural development in developing Member States…to introduce, expand or improve food production systems and to strengthen related policies and institutions…taking into consideration: the need to increase food production in the poorest food deficit countries; the potential for increasing food production in other developing countries; and the importance of improving the nutritional level of the poorest populations in developing countries and the conditions of their lives".

[3] https://www.undp.org/publications/dfs-avoiding-too-little-too-late-international-debt-relief.

[4] Ibid.

[5] https://www.un.org/development/desa/dspd/world-social-report/2021-2.html.

[6] Ibid.

insecurity where needs are most acute. Small-scale farmers produce between 30 and 35 per cent of the global food supply, and up to 70 per cent of food consumed in low and middle-income countries. Even at the smallest scale, farmers' food production is critical for their own food and nutrition security and for local markets.[7] Successful food systems transformation could generate US$4.5 trillion in new business opportunities every year.[8] This would create over 120 million decent rural jobs, help to limit global warming and regenerate natural ecosystems and biodiversity, while also reducing the estimated US$12 trillion in costs and waste currently generated by the food system every year.

B. IFAD13: An opportunity for accelerating financing and action

6. **IFAD13 is the time to invest in a resilient future and to make IFAD even more agile and innovative in amplifying and delivering impact** (figure 1). IFAD13 coincides with the completion of the IFAD Strategic Framework 2016–2025. A new strategic framework will therefore be developed during the IFAD13 period, to reflect the global context and the client countries' evolving needs.

Figure 1
IFAD13 Framework

7. **Recent impact assessments confirm that IFAD continues to improve the production, market access, resilience and food security of tens of millions of poor rural people and small-scale producers**. Every US$1 billion of investment through IFAD's programme of work has increased the incomes of 8.6 million beneficiaries by at least 20 per cent. During the IFAD13 period, the Fund will amplify this impact at the country level by capitalizing on its comparative advantage. Priority will be given to ensuring that rural livelihoods, particularly in **fragile contexts**, are able to adapt to **climate change** and multiple crises, by building their resilience through tailored financing and interventions. To this end, IFAD will crowd in greater public and private sector investments in rural areas by intensifying **private sector engagement** to deliver sustainable impact at scale.

8. **Under the IFAD13 business model and financial framework, impact will continue to be delivered through three pillars: operational, institutional**

[7] IFAD. 2021. Rural Development Report: Transforming food systems for rural prosperity.
[8] World Bank: https://documents1.worldbank.org/curated/en/879401632342154766/pdf/Food-Finance-Architecture-Financing-a-Healthy-Equitable-and-Sustainable-Food-System.pdf.

and financial. IFAD's business model enhancements, over recent replenishment cycles, have already laid the groundwork for IFAD13. Nonetheless, specific enhancements will be required across all three pillars during IFAD13 to make the Fund fully fit for purpose to deliver impact.

9. At the operational level, the focus will be on **aligning programme delivery**, with three key enhancements. First, the programme of work will be better integrated within transformative country programmes. Second, IFAD will continue to strengthen its adaptive programme management, based on more accurate and timely data to enable early and informed actions. Third, greater emphasis will be placed on enhancing the sustainability and scalability of IFAD investments. This will mean nurturing smart partnerships and alliances, including through SSTC and providing a platform for innovations. CLPE will remain a priority for rural populations to be empowered.

10. From an institutional perspective, ambitious reforms have already been implemented over previous cycles. During the IFAD13 period these reforms will be consolidated, while **strengthening institutional effectiveness**. More predictable strategic budgeting will adequately and efficiently support programme delivery priorities. IFAD will provide increased support to its workforce, notably through upskilling and re-skilling. Comprehensive onboarding support will also be provided for the onboarding of new staff, in a decentralized context.

11. IFAD will significantly step up **assembling and leveraging development finance** to expand its offer to its heterogeneous client base. IFAD will work with its Member States to maximize core resources, which are critical to increase support to LICs. By leveraging its core resources, IFAD will be able to increase borrowing to expand its PoLG across country categories. As an assembler of finance, IFAD will continue to crowd in cofinancing and mobilize supplementary resources.

II. Amplifying impact on rural livelihoods in food systems

12. **Food systems determine the ways in which food is produced, transported, processed and consumed.** The purpose of food system transformation is to make healthy and nutritious food available for all and provide decent livelihoods for those involved – all this in an environmentally sustainable way. In this context, IFAD's engagement has been from the perspective of the small-scale producers and rural poor people who are critically important for local food systems, yet the most disadvantaged.

13. **IFAD will continue to focus on its core areas: boosting incomes, local production, markets and resilience.** IFAD will invest in improving climate-smart agricultural productivity and integrating small-scale producers into commercial value chains, creating and sustaining local markets. These investments will be delivered by improving and strengthening the quality of IFAD's core programming as explained in section III(A) on aligning operational delivery.

14. **The rural economy has considerable untapped potential for creating decent jobs and productive economic opportunities to enhance rural livelihoods**. In developing countries, food systems employ most people in self and/or wage employment, on and off farm, as confirmed by the 2021 Rural Development Report.[9] During IFAD13, the Fund's priority will be to expand its work within these areas to create livelihood opportunities while building resilience in the face of climate, fragility and other global shocks.

[9] IFAD. 2021. Rural Development Report: Transforming food systems for rural prosperity, https://www.ifad.org/en/rural-development-report/.

A. Enhancing remunerative rural livelihood opportunities

15. **There is rising demand from Global South leaders for increased support to prioritize investments in agriculture, jobs and climate resilience.** This is confirmed in the Organisation for Economic Co-operation and Development (OECD) 2023 Development Co-operation Report,[10] which notes that global South leaders deem their countries' development is lagging due to insufficient job creation and a lack of financing to sustain job creation. IFAD's past three stakeholder surveys conducted in client countries show this demand, and highlight private sector engagement as a priority area for IFAD's future investments.

Enhancing rural livelihoods through greater private sector engagement

16. **IFAD's work with the private sector[11] is not new. For decades, IFAD has been investing most of its resources in inclusive value chain projects.** Currently, 79 per cent of ongoing IFAD projects are classified as value chain projects, at design. Most of these projects (93 per cent) involved a degree of collaboration with private sector entities. Thirty-six per cent of the ongoing value chain projects support public-private-producer partnerships (4Ps).[12] This approach has been successful in building remunerative livelihood opportunities and enhancing the incomes of rural people in diverse country contexts, including in fragile contexts (box 1).

17. **IFAD has also invested US$1 billion in rural finance interventions that serve both productive and resilience purposes**. IFAD has engaged with private financial intermediaries, non-bank financial institutions (e.g. insurance agencies), impact investors and Fintech firms, promoting regular and innovative financial products such as mobile money, micro-insurance and remittances to enable and catalyse financing.

Box 1
Supporting private sector engagement in fragile contexts

In Sudan, a 4P was established between an IFAD-financed project, producer groups and three seed companies (the Arab Sudanese Seed Company [ASSCO], Nile Sun and the Nectar Group). While the IFAD-financed project built the involved farmers' capacities, the seed companies provided additional technical assistance and engaged farmers, through contract farming, for the procurement of seeds for sorghum, groundnut and sesame. Although the project closed four years ago, the business arrangement is still ongoing.

The partnership between producers and the three seed companies resulted in the production of 489 metric tons of certified seeds on a total area of about 1,900 ha. Thanks to the use of improved, certified varieties, average yield increased by 50 per cent, even under unfavourable rainfall conditions. The seed companies estimated that the use of these seeds grew from 5 to 45 per cent, which translated into greater market opportunities for them. Moreover, about 269 seed growers (79 women and 190 men) were accessing advisory services for seed production and transferred their acquired knowledge to an additional 853 seed growers (323 women and 530 men), organized in 17 seed grower groups. The food security of the seed growers improved considerably, from eight to 12 food-secure months.

[10] Development Co-operation Report 2023: Debating the Aid System, OECD, https://www.oecd.org/dac/development-co-operation-report-20747721.htm.
[11] IFAD's Private Sector Engagement Strategy defines the private sector as "for-profit private business companies, private and institutional investors, commercial banks, investment funds [and] other financial vehicles that are majority-owned and/or managed by private entities or interests". This definition underscores the heterogeneity of the private sector actors that IFAD partners with.
[12] Public-private-producer partnerships (4Ps): Under such an arrangement, IFAD supports small-scale producers, private businesses and public authorities to collaborate to reach a common goal. While sharing benefits, resources and competencies, the parties also jointly assume risks and responsibilities. The goal of a 4P is to ensure transparency, fairness and accountability concerning decision-making, price-setting, cost and risk-sharing, contractual enforcements and ownership. While there is no one-size-fits-all 4P intervention, projects usually put a strong focus on market linkages and may entail mechanisms such as contract farming, supplier agreements, joint ventures between producer organizations and agribusinesses, collective value chain planning through multi-stakeholder platforms, improved coordination through online systems or value chain financing mechanisms.

18. **IFAD launched the PSFP during the IFAD11 period to invest directly in, and crowd in, private sector investments for projects to serve small-scale producers and rural poor people**. To this end, the PSFP offers: (i) catalytic financial interventions with high-risk tolerance and expectations of potentially low returns, which are needed but not available from other partners; (ii) technical assistance, coming from the PSFP itself, other donors, or government-funded projects that IFAD supports, combined with IFAD's technical expertise; and (iii) greater coordination with public sector efforts. This is ensured through the principle of complementarity that each PSFP project must have with public sector investment projects supported by the PoLG. Thus far, US$25.5 million has been invested by the PSFP in six non-sovereign operations (NSOs), with expected cofinancing of US$140.7 million. This should benefit 403,000 direct beneficiaries and 1.4 million indirect beneficiaries, of whom 60 per cent are expected to be women and 35 per cent young people.

19. **In IFAD13, through an updated Private Sector Engagement Strategy and building on the direction in this paper, the Fund aims to expand its work with the private sector to deliver greater impact.** To this end, IFAD13 will adopt a three-pronged approach in its work with the private sector, summarized as follows:

- **Enabling.** IFAD will work with governments to gradually leverage public sector investments to create an enabling environment for the private sector to collaborate with and invest sustainably and in an inclusive manner in small-scale producers. Investments will include: capacity-building for farmers and their organizations, rural financial system stakeholders and relevant public sector agencies, and business development services for micro, small and medium-sized enterprises (MSMEs); setting up multi-stakeholder platforms; investments in public goods, such as last-mile infrastructure; and investments in traceability and enhanced transparency of value chains. These interventions will seek to de-risk private sector linkages in rural economies.

- **Catalysing.** The Fund will provide financing to private sector entities to unlock and crowd in their investments and financial services to small-scale producers and rural poor people. This will be done through rural finance instruments, funded by the sovereign lending[13] and the PSFP. An important change in IFAD13 will be to explore opportunities for financing and cofinancing with the private sector to alleviate the burden on increasingly indebted countries. This implies, among others, a stronger role for the PSFP, including an expanded offer of risk mitigation instruments (guarantees, subordinated debt, risk sharing, etc.).

- **Assembling.** IFAD13 will entail a higher ambition of supporting or leading the origination and structuring of large-scale investment platforms to attract private sector businesses and financiers as co-investors or parallel cofinanciers. The focus will be on crowding in funds from institutional and impact investors. These platforms could take the form of blended financial structures, including, but not limited to, funds and facilities. This approach rests on a stronger structuring capability for IFAD, which will be further strengthened during IFAD13, and a greater role for PSFP instruments (notably first loss, subordinated debt and risk sharing).

20. **The above three-pronged approach will stimulate a cycle of growth that generates both income and jobs for rural people.** Guiding principles in implementing this approach will be: (a) transparency and selectivity, fairness and empowerment of small-scale producers and rural poor people; (b) focus on local

[13] For example, matching grants, tripartite cost-sharing arrangements, lines of credit to financial intermediaries and guarantee funds) as well as the financial instruments of the PSFP (e.g. debt, risk sharing and guarantees).

private sector development; and (c) rigorous due diligence of private sector partners.

21. **IFAD recognizes that not all smallholders and rural poor people are ready to work with the private sector.** In this regard, in IFAD13, ultra-poor and small rural producers who are practising subsistence farming and thus not well positioned for direct private sector engagement will be empowered through relevant programmes and interventions, including graduation-from-ultra-poverty approaches that have proven to be effective.

B. Building the resilience of rural livelihoods

22. The increasing frequency and intensity of shocks, including those induced by climate change, has made it critical to invest in building the resilience of rural livelihoods. Every US$1 spent on resilience now saves up to US$10 in emergency aid in the future.[14] In this context, in IFAD13, the Fund will increase its ambition on climate change adaptation support to small-scale producers and enhance its focus on fragile contexts, where resilience-building is critical for longer-term sustained development.

Biodiversity and climate resilience of small-scale producers

23. **Without strong climate adaptation and mitigation measures, food insecurity, losses and damage will likely be concentrated among the poorest vulnerable populations, in rural areas**.[15] IFAD has demonstrated its capability to invest in climate change adaptation and ensure climate finance reaches those most in need. IFAD's climate work also yields significant biodiversity co-benefits. IFAD is well positioned to play a greater role in protecting, restoring and promoting biodiversity and its sustainable use in rural systems. Currently biodiversity loss is affecting small-scale producers worldwide, jeopardizing their livelihoods and undermining their productivity and resilience.

24. **IFAD's work on enabling adaptation to climate change of rural people and increasing their resilience to climate and other environmental shocks, during the IFAD13 period, will be driven by** a new consolidated strategy. This new strategy will increase IFAD's support to countries to effectively incorporate climate adaptation, environmental sustainability and biodiversity management into policies and investments. IFAD will continue to build on demonstrated results through investments that promote soil conservation, water management and agroecological practices.[16]

25. **On biodiversity, IFAD invests in sustainable rural development and food production, which are central to most Global Biodiversity Framework targets.** With strong social inclusion policies and tools, IFAD brings people and Indigenous Peoples and local communities to the fore, empowering them to drive well-targeted development. IFAD has recently updated safeguards and integrated risk management frameworks that ensure that all IFAD investments are screened against biodiversity risks, promote sustainable use of inputs, mitigate pollution risks and use of alien species, prevent conversion of natural habitat and promote sustainable agriculture.

26. IFAD's notable strides in mobilizing international climate finance[17] to complement its core programming have increased investments to address climate change impacts on rural livelihoods, supporting low-carbon development and improving

[14] The Global Commission on Adaptation in 2019: Adapt now: A global call for leadership on climate resilience, https://gca.org/about-us/the-global-commission-on adaptation/#:~:text=The%20Global%20Commission%20on%20Adaptation's,disaster%20risk%20management%2C%20and%20finance.
[15] IPCC 2022 report – Sixth Assessment Report: Climate Change 2022: Impacts, Adaptation and Vulnerability.
[16] IFAD's stock-take on agroecology approaches in IFAD's operations accessed at https://www.ifad.org/documents/38714170/45258342/PMI+Agroecology+assessment.pdf/d39e37dd-8c35-c909-669d-906bb3ad716f?t=1649164401038.
[17] For example from Green Climate Fund, Adaptation Fund and the Global Environment Facility.

smallholder farmers' adaptive capacity. Moreover, IFAD's resilience measurement approach remains instrumental in quantifying and assessing the resilience of rural communities, in the face of climate change and other shocks.

27. **Adaptation to climate change and biodiversity conservation is an integral part of all agriculture financing and will continue to be central to IFAD's work**. During the IFAD13 period, the Fund will increase its climate finance target from 40 per cent in IFAD12 to at least 45 per cent,[18] of which 30 per cent will be for nature-based solutions by 2030.

28. **To achieve a higher ambition on climate finance, IFAD proposes to mobilize additional climate contributions (ACCs).** While all projects have a climate lens, the additional resources mobilized for climate will enable IFAD to increase climate finance in projects fully attributable to climate activities, based on the multilateral development bank (MDB) methodology. The ACCs will be a part of core funding, providing increased volumes of more predictable climate finance up front, in a way that is fully integrated in IFAD's financial architecture. Countries can use this dedicated financing for adaptation and mitigation, integrating additional activities during the design stage of projects. Coupled with grant-based climate resources from the enhanced Adaptation for Smallholder Agriculture Programme (ASAP+) or other climate funds, countries can also foster innovation by supporting the development of new technologies, approaches, and financial instruments with grant financing, that can then be scaled up by ACCs and IFAD's core PoLG climate finance.

29. IFAD's overall climate finance package will include: designing innovative projects; pursuing blended finance solutions; diversifying funding sources; fostering private sector investments; aggregating climate and biodiversity finance; and promoting enabling policies for climate action and biodiversity management. Moreover, IFAD will build on its experience of carbon projects in Brazil,[19] Ethiopia[20] and Viet Nam[21] to explore the possibility of connecting smallholder farmers to carbon markets. To enhance IFAD's transparency and accountability, a more systematic approach to greenhouse gas through project economic and financial analyses will be explored, as part of a roadmap that IFAD will adopt on the Paris Alignment.

30. A high premium will be placed on context-specific, integrated adaptation and resilience-building interventions based on local climate risk scenarios and agroecological conditions. In this context, IFAD will scale up its work by combining the following approaches:

    - Sustaining efforts to **measure and understand resilience to climate and other shocks**. IFAD will continue to measure the resilience of its programme of work to climate, economic and other shocks through an ability to recover index. Guidance will also continue to be provided to country teams for designing and monitoring the performance of resilience-building interventions using the resilience design and measurement tool.

    - Investing in **early warning systems and disaster risk reduction measures** will help communities prepare for and respond to climate-induced hazards (e.g. floods, droughts and storms). These will include supporting the development and implementation of early warning systems, risk mapping and climate change emergency preparedness plans.

[18] Including ACCs, with share of climate in non-ACC resources to be maintained at least at 40 per cent, and ACCs 100 per cent climate finance.
[19] Planting climate resilience in rural communities of the north-east project, https://www.ifad.org/en/web/operations/-/project/2000002253.
[20] Community-based integrated natural resources management project, https://www.ifad.org/en/web/operations/-/project/1100001424.
[21] Reduced emissions through climate smart agroforestry, https://www.ifad.org/en/web/operations/-/project/2000002336).

- Increasing investments in **climate-smart agriculture** will in turn increase agricultural productivity, improve food security and reduce greenhouse gas emissions. These will entail promoting crop diversification, efficient irrigation techniques and sustainable land management practices.
- Investing in projects that promote **ecosystem restoration, sustainable land management and biodiversity conservation** will enhance the resilience of communities. Such projects will also generate co-benefits such as carbon sequestration and improved water quality, and support resilient rural livelihoods.
- Investing in **improving and adapting existing infrastructure**, such as water management systems and last-mile infrastructure and services to reach the remotest places and those most vulnerable. These will include upgrading infrastructure to withstand extreme weather events and incorporating green infrastructure elements to enhance resilience (box 2).

Box 2
IFAD support in climate-resilient rural infrastructure

- In Bangladesh, the Coastal Climate-Resilient Infrastructure Project (CCRIP) successfully raised road levels and reinforced market places. This ensured continuous market access for beneficiaries and income growth. The project performance evaluation conducted in 2020 by the Independent Office of Evaluation of IFAD (IOE) confirmed their effectiveness during a cyclone.
- In Uganda, thanks to IFAD's support, upgraded all-weather roads have led to reduced travel, higher farm gate prices and better road maintenance, as highlighted by the IOE's 2021 country strategy and performance evaluation.
- The Iranamadu Irrigation Development Project (IIDP), in Sri Lanka, protected infrastructure from climate risks by channelling excess rainwater through drainage canals, reducing flood damage and conserving water for later use.
- In Madagascar, IFAD's Inclusive Agricultural Value Chains Development Programme (DEFIS) is financing climate-proof water intake structures and enhancing technical capacities. It is also promoting improved plant materials and climate-resilient rural roads, for better market access during severe weather.

Supporting resilience in fragile contexts

31. **Drivers of fragility have intensified in rural areas.** These include climate change and environmental degradation[22] in addition to conflict, which was the main driver of food crises in 2021.[23] Different drivers often coexist and reinforce each other to adversely affect rural livelihoods, especially for people living in extreme poverty.

32. **IFAD defines fragility as "a condition of high vulnerability to natural and man-made shocks, often associated with an elevated risk of violence and conflict".[24]** Working in fragile contexts and addressing fragility have long been part of IFAD's business model.[25] IFAD's experience shows that: "Fragile situations typically provide a weaker enabling environment for inclusive and sustainable rural transformation and are characterized by protracted and/or periodic crises, often with implications for smallholder agriculture and food security."[26]

33. **Going forward, current trends on the geography of extreme poverty confirm that IFAD's footprint in fragile contexts will grow**. According to World Bank estimates, about two thirds of people living in extreme poverty, most

[22] The sixth Intergovernmental Panel on Climate Change (IPCC) report, https://www.ipcc.ch/assessment-report/ar6/.
[23] https://www.fsinplatform.org/sites/default/files/resources/files/GRFC%202022%20MYU%20Final.pdf.
[24] IFAD 2016 Strategy for Engagement in Countries with Fragile Situations, https://webapps.ifad.org/members/eb/119/docs/EB-2016-119-R-4.pdf.
[25] Since 2006, IFAD has developed several tools to guide its work in fragile contexts, around four entry points to support rural populations' resilience. These include: Policy on Crisis Prevention and Recovery (2006), a Strategy for Engagement in Countries with Fragile Situations (2016), and a Special Programme for Countries with Fragile Situations (2019).
[26] Ibid.

of whom are rural, will be in countries in its Fragile and Conflict-affected Situations (FCS) list by 2030.[27] The OECD States of Fragility Report 2022 indicates that this number may reach 86 per cent, based on its broader definition of fragility.[28]

34. **In IFAD13, the Fund will prioritize building resilience in fragile contexts, in line with developments in the international financial institution (IFI) community.** Several IFIs, including the African Development Bank (AfDB), European Investment Bank (EIB) and International Monetary Fund (IMF), have launched new strategies or programmes to address fragility. These generally include food and agriculture as important focus areas, informed by the impact of COVID-19 on food systems and the ongoing global food crisis.

35. IFAD will support the long-term resilience of rural livelihoods in non-acute situations of fragility rather than in high-intensity conflict situations. Nonetheless, IFAD can and does operate in countries with high-intensity conflict situations. In doing so, it focuses on geographical areas where its business model is viable at any given point in time and, through well-defined modalities, including third-party delivery.

36. IFAD will commit, in IFAD13, to allocate at least 25 per cent of core resources to countries on the World Bank FCS list.[29] As part of the IFAD12 commitments, 10 action points[30] were articulated to improve IFAD's work in fragile contexts. The Fund is developing a refreshed operational approach to fragility, to be completed in 2023. Building on this, IFAD will focus on certain new elements[31] in IFAD13, to continue delivering even more effectively in environments where fragility is more pervasive and shocks more frequent. These are summarized as follows:

- **Pursue four principles of engagement in fragile situations**: (a) building long-term resilience; (b) focusing on prevention; (c) doing no harm; and (d) seeking ways to remain engaged, within the scope of IFAD's business model, to support countries as they move across stages of fragility.

- **Develop smarter tools and approaches to understand fragility**. IFAD will promote the use of digital data systems, managed by IFAD or by its information and communications technologies for development (ICT4D) partners, to assess key factors of fragility at design and over a programme's life cycle. These systems will also be used to support targeting and supervision in low-security situations.

- **IFAD will strengthen its in-house expertise on fragility.** A fragility support unit will be established to provide support to operational delivery, policy and coordination and on strengthening knowledge and lessons across IFAD. In addition, staff capacity will be enhanced to conduct rigorous fragility assessments and risk assessments, using tools already integrated in country strategic opportunities programmes (COSOPs), country strategy notes (CSNs) and project design.

- **Ensure a strong fragility lens in designing new investment projects and programmes.** This will mean: (a) systematically integrating results of

[27] World Bank. 'Data Total Population in Fragile and Conflict Affected Situations'. World Bank Data, World Bank, 2021, Available Here; World Data Lab. World Poverty Clock. IFAD and the German Agency for International Cooperation (GIZ), 2021.
[28] States of Fragility Report 2022. OECD, https://www.oecd-ilibrary.org/docserver/c7fedf5e-en.pdf?expires=1680679943&id=id&accname=ocid195767&checksum=0E6AE6235D939DD6FA571BD85F77A78F.
[29] https://www.worldbank.org/en/topic/fragilityconflictviolence/brief/harmonized-list-of-fragile-situations.
[30] The 10 action points are (paraphrased by the authors): (a) more financing, including 25 per cent of core allocation; (b) more data and data use; (c) better planning of country strategies to tackle drivers of fragility; (d) a smarter approach to country strategies to address institutional and policy support for rural development, catalyse public and private investments, and support inclusive economic opportunities; (e) strengthening partnerships; (f) pursuing synergies with humanitarian interventions; (g) working on a multi-country basis where appropriate; (h) pursuing alliances to mobilize finance for resilience in countries with fragile situations; (i) boosting country system capacity building; and (j) calibrating IFAD's in-country presence in situations of fragility.
[31] These will be informed by IFAD's own experience and by developments among IFIs and in the community of practices on fragility.

fragility assessments into project/programme theories of change, with linkages to priority factors of fragility of greatest relevance to IFAD's target group; (b) designing, whenever appropriate, project components for crisis and disaster risk reduction to allow for adaptive management with quick reallocations and/or additional allocation of resources, when crises occur; and (c) develop scenarios during programme design to anticipate the evolution of factors of fragility, whenever possible. As in non-fragile contexts, multi-phased programmatic approaches (MPPAs) will be used. Other provisions, for instance around third-party implementation, will continue to be pursued.

- **Nurture partnerships around the humanitarian-development-peacebuilding nexus to complement IFAD's work and mitigate some of the costs and challenges of delivering in fragile situations.** Building on recent and ongoing practices (e.g. the Joint Programme for the Sahel in Response to the Challenges of COVID-19, Conflict and Climate Change (SD3C),[32] and ongoing dialogue among the RBAs on fragility), IFAD will identify further opportunities for joint diagnostics and programming with the World Food Programme (WFP) and the Food and Agriculture Organization of the United Nations (FAO) in a small group of priority countries with fragile situations. IFAD will also operationalize its partnership with the United Nations Peacebuilding Fund. It will identify a set of countries where resources can be jointly deployed, focusing on local rural conflict prevention and women's empowerment. Opportunities will also be explored to join key fragility-focused networks and communities of practice in the IFI and nexus communities, both at country and global[33] levels.

37. IFAD will focus on three factors of fragility: institutional, environmental and climate-related; as well as social, through four entry points: (i) strengthening local institutions and communities for effective local governance and service delivery; (ii) increasing food security through agricultural productivity and local food markets; (iii) fostering sustainable natural resource management, including disaster preparedness and climate adaptation; and (iv) supporting women's role in building resilient communities. Evidence[34] shows that IFAD will continue to achieve positive results in fragile contexts around each of these entry points, but at comparatively higher cost for fragility-adjusted design, delivery and in-country engagement.

38. Complementing these within a coherent package, the IFAD13 offers on biodiversity and climate resilience, social inclusion and private sector engagement will also contribute to mitigating social, institutional and environmental factors of fragility.

C. Ensuring inclusivity to leave no one behind

39. **In IFAD13, the Fund commits to social inclusion as an integral part of the investment portfolio.** Commitments on social inclusion themes in new project designs will progressively expand its ongoing portfolio. Across the SDGs, one common ambition is to leave no one behind. As a people-centred organization IFAD has extensive experience in engaging with key partners including farmers' organizations (FOs), Indigenous Peoples' organizations and other community-based organizations (CSOs). In developing its IFAD13 proposals, the Fund engaged with FOs, Indigenous Peoples and youth, through the Farmers' Forum, Indigenous Peoples' Forum, and IFAD youth grassroots approach, respectively. Box 3 presents the recommendations that emerged from these discussions and that have been taken into consideration in developing the IFAD13 proposals.

[32] https://www.ifad.org/en/web/operations/-/project/2000003358.
[33] Examples include the Global Network against Food Crises and the OECD International Network on Conflict and Fragility, as well as multilateral development banks practice exchange forums on fragility and conflict.
[34] Examples of such evidence and illustrations of types of interventions deployed by IFAD in a variety of fragile situations can be found in "Addressing fragility through a focus on rural livelihoods: a reflection on IFAD's role". IFAD, EB 2023/138/R.2.

Box 3
Recommendations from consultations with key partners

- For **Indigenous Peoples**: (a) the implementation of the Update on IFAD's Policy on Engagement with Indigenous Peoples, approved by IFAD's Executive Board in December 2022, is key, in particular the observer status at the Executive Board; (b) engagement of Indigenous experts in project design and supervision processes; (c) securing funding for the Indigenous Peoples Assistance Facility (IPAF); and (d) operationalization of the target of reaching 11 million Indigenous Peoples through IFAD's investment projects by 2032.
- For **youth**, access to capacity-building and training, as well as resources, is key to ensure that they can be engaged in consultations at national, sub-national, regional and global levels as well as to build their ownership.
- For **farmers' organizations**, greater access to IFAD's financial instruments and involvement in IFAD's governance are the priorities. In addition, FOs highlighted the importance of working on short and long-term interconnected challenges that are impacting their livelihoods and leveraging both new and traditional knowledge for innovation.

40. **IFAD's commitment to gender equality and women's empowerment is central to its mandate.** IFAD's 2019–2025 Gender Action Plan[35] committed to progressively scale up gender-transformative programming in IFAD-financed operations. Indeed, the commitment at design increased from 15 per cent for IFAD10 to 35 per cent for IFAD12 and is on track to being achieved. **In IFAD13, the Fund will ensure that 35 per cent of new projects are gender-transformative at design.** Moreover, IFAD will explore scaling up the Gender Action Learning System plus (GALS+). This includes modules to strengthen nutrition outcomes, youth engagement and the climate change mitigation measures and adaptive capacities of households and communities.

41. **IFAD recognizes the intersectionality of gender and nutrition and the crucial role of women to improve nutrition outcomes**. In IFAD13, the Fund will leverage climate and biodiversity finance to support a shift towards ensuring access to healthy diets, while increasing the resilience of rural communities to climate change impacts. For example, IFAD will focus on neglected and underutilized species, indigenous seeds and Indigenous Peoples' knowledge to promote healthy diets, building on the untapped potential of sustainable use and biodiversity conservation. IFAD will explore, in collaboration with partners, a gender-transformative approach integrated with outcomes on nutrition.

42. **During IFAD13, the Fund will ensure 60 per cent of new projects are nutrition-sensitive**. The main thrust of the Fund's attention will be on deepening the quality of implementation of its nutrition interventions and scaling up successful approaches (box 4). IFAD will apply a nutrition-sensitive food systems approach to ensure that all people can access food that is safe and affordable, in ways that are sustainable. To this end, IFAD will continue to strengthen its partnerships with other United Nations agencies (notably RBAs) and NGOs for better quality services. IFAD will also leverage its value chain investments to influence the supply and demand of safe and nutritious foods. In particular, IFAD will increase private sector investments in interventions that contribute to healthy diets, by using its resources on nutrition-sensitive value chains (e.g. guidebook[36] and e-learning courses).

[35] https://www.ifad.org/en/-/mainstreaming-gender-transformative-approaches-at-ifad-action-plan-2019-2025?p_l_back_url=%2Fen%2Fsearch%3Fq%3DGender%2Baction%2Bplan.
[36] https://www.ifad.org/nl/web/knowledge/-/publication/nutrition-sensitive-value-chains-a-guide-for-project-design-volume-ii.

Box 4
Optimizing home gardens for better nutrition

Experiences from projects in Djibouti and India, where home gardens are approximatively 10m^2 each, have shown how solutions can be found to increase the size of home gardens without high costs. In these projects home gardens are irrigated using grey water and, where available, supplemented with well water, pumps or rooftop water harvesting. The home gardens are also fenced using local material, and the fencing is used to grow creepers. In both countries, the impact on household nutrition is greater when activities are accompanied by effective nutrition education and combined with animal husbandry to complement diets with animal-sourced proteins.

43. **IFAD will offer a differentiated package of actions according to the degree of nutritional vulnerability of rural populations.** For example: (a) the most vulnerable could receive a package of interventions such as homestead gardens, grants, income-generating activities and water infrastructure; and (b) the less vulnerable could receive nutrition education and social behavioural change communication (SBCC) interventions. In this vein, IFAD will continue to explore how it can strengthen its SBCC and nutrition education strategy.

44. **IFAD13 will reinforce the employment-centred approach to promote the inclusion of youth and ensure that 60 per cent of new projects in IFAD13 are youth-sensitive.** Based on its extensive experience of delivering youth-sensitive projects, IFAD recognizes that addressing the drivers of youth unemployment requires a dynamic and differentiated ecosystems-based approach that accounts for both supply and demand-side interventions within food systems.

45. IFAD13 will continue to strengthen and scale out its flagship agribusiness hubs model. This model is designed to serve as an agile one-stop-shop for young entrepreneurs and jobseekers, by creating and accelerating businesses, and brokering job opportunities for young women and men within food systems (box 5), while building more resilient rural economies.

Box 5
Creating employment opportunities for rural youth

IFAD is playing a pioneering role, by adopting a systems-based approach to youth employment. The Creating Employment Opportunities for Rural Youth in Africa (Integrated Agribusiness Hubs) works with implementing partners to create employment opportunities for rural youth in nine African countries: Algeria, Cameroon, Côte d'Ivoire, Kenya, Madagascar, Malawi, Mozambique, Nigeria and Rwanda. Preliminary knowledge and learning emerging from this programme's third year of implementation confirm that: (a) start-up and existing agribusinesses require quality technical advice as well as continued mentorship for sustained business establishment and growth; (b) establishment of long-term networks is crucial in fostering youth employment; and (c) capacity-building interventions, implemented in close collaboration with the private sector, are a requisite.

46. **IFAD will also expand its youth-related investments to meet the growing demand in the green, blue, and orange economies.**[37] It will invest strategically in digitization, renewable energies, and green skills and technologies, including those emerging alongside restoration and conservation efforts, as well as niche value chains, which can also support agro-biodiversity. Additionally, IFAD will intensify engagement with youth organizations including under initiatives such as the development of Grassroots Youth Alliance, which will be scaled up at country and regional levels.

47. In line with IFAD's updated Policy on Engagement with Indigenous Peoples (2022), **IFAD will engage with Indigenous Peoples as partners**. In areas home to Indigenous Peoples, IFAD will continue to ensure that they are empowered to enhance their livelihoods, food and nutrition security, and resilience to climate and other shocks. Under IFAD13, ten projects with a significant focus on Indigenous Peoples will be designed. In addition, IFAD will continue to leverage IPAF, which

[37] A green economy is defined as low carbon, resource efficient and socially inclusive. Blue economy relates to the sustainable use and conservation of aquatic resources to drive economic growth, improve livelihoods and create jobs, while ensuring protection of the environment, cultural values, and biodiversity. The orange economy has been defined as "the set of activities that – in an interlocking way – allow for ideas to be transformed into cultural goods and services" (Inter-American Development Bank ([IDB], 2013).

finances small projects fostering self-driven development to enable Indigenous communities to find solutions to the challenges they face.

48. IFAD's Disability Inclusion Strategy approved in 2022 will provide the basis for disability inclusion across its work. IFAD committed to designing at least five projects between 2022 and 2024 that include persons with disabilities as a priority target group. **During IFAD13 the Fund commits to five new projects including persons with disabilities as a priority target group.** In this way the portfolio of projects focusing on persons with disabilities will gradually be expanded. IFAD will apply an intersectional approach to its work on disability inclusion. In line with IFAD's horizontal integration agenda, special attention will be given to women, youth and Indigenous persons with disabilities.

III. Delivering impact through key enhancements

49. **IFAD's reforms over the past three replenishment cycles have enabled it to deliver against its impact ambitions**. In agreement with Member States, the key changes to IFAD's business model and financial framework, as shown in figure 2 below, have been: (a) its increasing global footprint, bringing it closer to its clients and rural people; (b) adoption of transformational country programmes, while using its operational toolkit to provide a menu of solutions in response to client needs; (c) changes to its financial architecture, to be able to mobilize higher levels of resources to invest in rural livelihoods by leveraging its core resources to expand borrowing and to lend to the private sector; (d) mobilization of greater levels of supplementary resources and cofinancing; and (e) investment in institutional reforms, by upgrading its systems and tools to enable delivery and better results measurement and monitoring.

A. Aligning operational delivery

50. **IFAD has enhanced its operational delivery model over past replenishment cycles so as to become a preferred and trusted partner for its client countries**. IFAD has progressively offered countries access to an expanded operational toolkit, including MPPAs, regional lending operations (RLO), results-based lending (RBL), joint programming with other development partners, as well as reimbursable technical assistance (RTA). These enhancements respond to client countries' common views on key factors that make a development organization a desired partner,[38] as recently highlighted in the OECD's 2023 Development Co-operation Report.[39]

51. **In IFAD13, the enhancements to IFAD's operational delivery model will build on the adjustments made over previous replenishment cycles**. These enhancements will focus on specific areas where further strengthening is needed, as follows:

- **Ensure an integrated programme of work (PoW)** to deliver solutions and respond to country priorities, by bringing together its PoLG and the additional sources of finance that IFAD will assemble and leverage.
- Continue to deploy an **adaptive management approach in managing the integrated PoW**. Since this approach inherently allows for operational flexibility, IFAD is able to readily support rural communities in addressing unexpected global, regional and/or country-level shocks. IFAD will also work with client countries, including the rural communities it serves, to continue improving the management and implementation performance of IFAD-financed projects.

[38] These are (paraphrased by the authors): Partners that adapt strategies to country needs; prioritize long-term planning; disburse substantial financial resources; co-create solutions with stakeholders; adhere to international standards; and offer useful advice/support.
[39] https://www.oecd.org/dac/development-co-operation-report-20747721.htm.

- IFAD will continue to focus on **sustainable and scalable investments.** This will require strong CLPE, to allow rural populations' voices to be heard, while leveraging partnerships and innovation.

Figure 2
Evolution of IFAD's business model and financial framework

	IFAD10	**IFAD11**	**IFAD12**	**IFAD13**
	2016–2018	**2019–2021**	**2022–2024**	**2025–2027**
Financial "Bigger" 	Core contributions, Debt Sustainability Framework (DSF) compensation Unrestricted complementary contributions (UCCs) Sovereign loans	Core contributions, DSF compensations UCCs Sovereign loans and CPLs Cofinancing strategy and action plan	Core contributions (including DSF compensation) Integrated Borrowing Framework Enhanced Adaptation for Smallholder Agriculture Programme (ASAP+) and PSFP Growing the supplementary resources portfolio (particularly climate funds) Leveraging greater cofinancing for impact at scale	Core contributions (including DSF compensation, climate ACCs + partial PSFP resources) Integrated Borrowing Framework (including for PSFP) Growing the supplementary resources portfolio (particularly climate funds and ASAP+) Leveraging greater cofinancing for impact at scale
Operational "Better" 	Delivering IFAD's PoLG – project focus Smaller projects (US$31 million average) with less cofinancing	Country programme focus – transition framework Larger projects (US$41 million average) New instruments – RBLs, RLOs, RTAs Special programme on countries with fragile situations	Strengthened country programme approach. Moving from PoLG to PoW Project size fit for context Holistic package of support including new instruments multi-phased programmatic (ASAP+, PSFP, blended financing) Enhanced engagement in FCS	Integrated PoW (core + biodiversity and climate resilience + private sector) Expanding programmatic approaches through the multi-phased programmatic approach Focus on sustainability and scalability
Institutional "Smarter" 	Headquarters based Strengthening service delivery platforms (ICT, Human Resources Division)	Decentralization of IFAD's workforce; 32 per cent of IFAD staff decentralized Business process reengineering + Strategic workforce planning	Continued decentralization: from 32 to 45 per cent Improving efficiency and boosting capacity to deliver through dynamic workforce planning Integration of IT tools and automation Upgrade of staff technical and soft skills oriented to future needs and innovative approaches	Recalibrated decentralization plan Budget reform Integrated systems An enabling workplace culture

Ensuring integration within transformative country programmes

52. **Given the multidimensional challenges for rural economies, development operations are most effective when they are part of a portfolio of holistic interventions rather than isolated projects**. In IFAD13, the Fund will reinforce the delivery of integrated transformative country programmes. These will focus on IFAD's niche and comparative advantage in agriculture and non-farm economic opportunities for rural populations.

53. **Transformative country programmes, delivered through COSOPs and CSNs, provide the blueprint for IFAD's engagement at country level**. In IFAD13, country programmes will remain tailored to country context, and respond to country needs and demand. In doing so, IFAD will leverage its comparative advantage in supporting national food systems transformation through rural communities. COSOPs and CSNs will be anchored in borrowers' national visions, national food system pathways and relevant sector strategies, including Nationally Determined Contributions, national adaptation plans, and national biodiversity strategies and action plans.

54. **Under IFAD13, the focus will be on ensuring that clients have access to the right mix of financing and tools to deliver on country-level priorities, to be identified in COSOPs and CSNs**. Doing so will imply that IFAD will: (i) leverage its operational toolkit by expanding the use of already introduced instruments such as MPPAs, RBL and type-C[40] projects; (ii) promote climate finance as an intrinsic part of projects/programmes; and (iii) foster greater synergies between sovereign and non-sovereign operations.

55. **A revised portfolio approach will be used in IFAD13, in which single projects will be consolidated into larger operations with several phases** (box 6) and a **longer duration**. Specifically, IFAD aims to consolidate ongoing investments by the end of IFAD13, continuing the trend towards fewer but larger investments**. This revised approach to consolidated programmes will** also translate into simplified project architectures, while focusing on client-driven interventions.

Box 6

Benefits of multi-phased programmatic approaches: An example from IFAD's support in Ethiopia

The Rural Financial Intermediation Programme (RUFIP) is currently in its third phase (2020–2026). RUFIP I (2003–2010) and RUFIP II (2011–2020) played a pivotal role in supporting the expansion and outreach of microfinance institutions (MFIs) and rural savings and credit cooperatives (RUSACCOs). There were only a handful of MFIs operating when the first phase of RUFIP became operational. Today they are widespread. MFIs benefited from debt finance and technical skills development under all the phases of RUFIP. The number of RUSACCOs increased from 2,529 during RUFIP I, and it is expected that the target of 11,000 will be reached by the end of RUFIP III.

RUFIP I and RUFIP II have transformed the microfinance sector by improving MFIs' liquidity, creditworthiness and outreach. The significant growth in outreach from RUFIP I (3.5 million people) to RUFIP III (12.4 million people) provides an opportunity to automate financial management, and continue improving the supervision and reporting of the entire rural finance system of RUSACCOs/their unions and MFIs. Six MFIs are already offering mobile money products through 800 branches, with a strong recognition that innovative initiatives such as digital finance/mobile banking can transform financial inclusion landscape.

56. **Under IFAD13, the Fund will continue to ensure that its interventions at country level prioritize the programmatic approach.** In this regard, the focus will be on continuing the roll-out of the MPPA, in the recognition that MPPAs make it possible to reconcile long-term commitments to strategic orientations and sustainability with agility and flexibility. In addition, MPPAs foster lasting partnerships and government ownership through enhanced policy dialogue and private sector engagement. Hence, in IFAD13, at least 10 per cent of new designs will use the MPPA.

[40] Type-C projects are a particular type of cofinancing partnership, where the other partner initiates the project and takes the lead in both design and implementation, and IFAD is the supporting partner.

57. **There is growing demand from governments for RBL instruments, although IFAD's RBL pilot initiative is at an initial stage.** There are currently four approved pilot projects in the early phases of implementation – two in China and one each in Cuba and Senegal (type-C projects). Additionally, a second wave of piloting, partnering with the World Bank's Programme-for-Results (PforR), includes three projects under design in Bangladesh, Colombia and Morocco. The projects have been designed to test different results-based modalities: some are results-based subcomponents within traditional investment projects, while others are programmatic in scope - part of the PforR instrument. **In partnership with other IFIs, in IFAD13, the Fund will continue to explore how it can contribute financing, focused on the rural poor, through RBLs. This will include using disbursement-linked indicators in programmatic scenarios (PforRs). By leveraging these opportunities, IFAD will seek to introduce IFAD13 priorities within much larger development initiatives.**

58. **In IFAD13, the Fund will develop transformative country programmes, with a strong private sector lens.** This will mean that 100 per cent of new COSOPs will present clear private sector engagement opportunities. Early and continuous engagement with the private sector will be prioritized, to identify market opportunities for engagement with small-scale rural producers. IFAD will also maintain an updated bankable pipeline of NSOs. This will help to secure sustainability at scale, by leveraging official development assistance for crowding in private sector investments.

59. **Climate, environment and biodiversity will be further strengthened in transformative country programmes.** IFAD will focus on promoting greater integration of climate finance at inception and ensuring full integration of climate finance within the overall financing that will be provided to client countries. While climate and environment aspects are already explicitly considered in COSOPs and CSNs, integration of multiple sources of climate finance will be a priority in IFAD's country programmes.

60. To the extent possible, IFAD will promote closer alignment of the delivery timelines of its blended projects such that supplementary climate finance is an integral part of the overall project. In this context, the potential funding from ACCs will be a critical value addition, as it will provide predictable additional climate financing for countries. IFAD has already issued internal guidance on supplementary climate finance operations and, in IFAD13, it will continue to fine-tune this guidance based on lessons from its implementation.

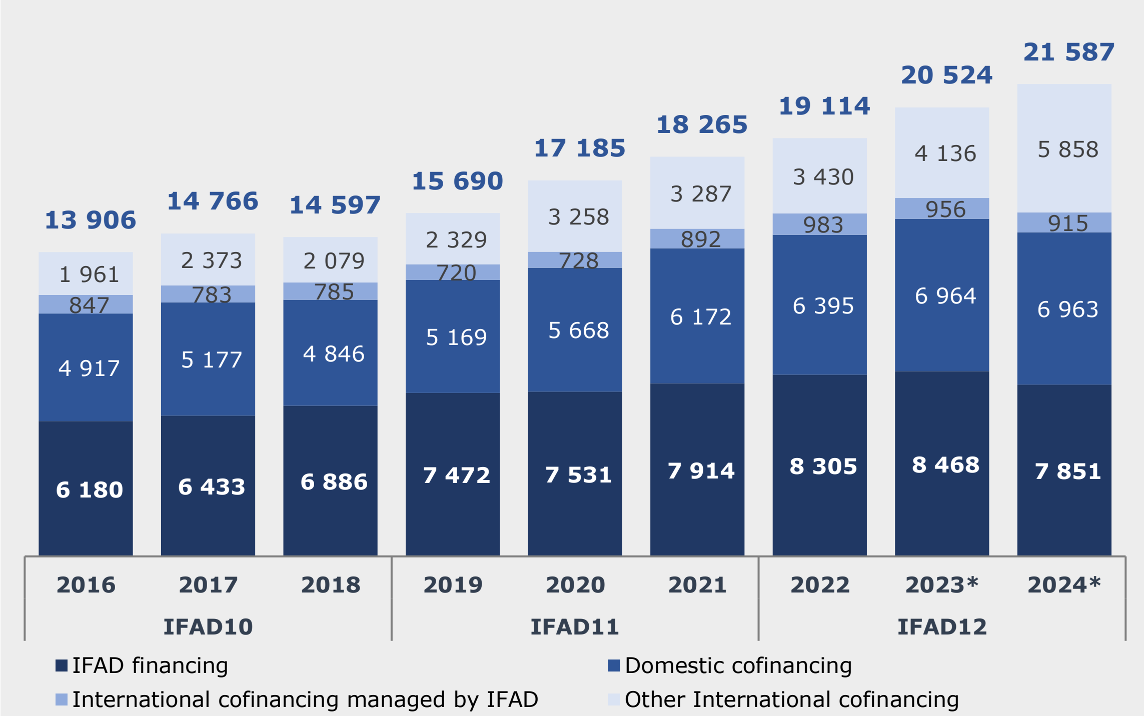
Adaptively managing the integrated programme of work

61. **Operational flexibility within transformative country programmes will be critical to support client countries in responding to crises.** This will also entail ensuring IFAD investments are sufficiently flexible and agile to respond more quickly to the impact of shocks.

62. **Adaptive management approaches emphasize the ability to learn, respond and evolve quickly and efficiently**, as risks materialize and progress stalls during portfolio implementation. IFAD is increasingly managing an expanded active PoW, as shown in figure 3. The increase in IFAD's proactivity from 47 per cent in 2018 to 80 per cent in 2022 confirms that adjustments to its delivery approach are on the right track. This success has been guided by the implementation of IFAD's restructuring policy.[41] In IFAD13, the Fund will work with client countries to adaptively manage the implementation of country programmes, by adjusting the design of operations where needed and putting in place performance improvement plans to address underperformance.

[41] https://webapps.ifad.org/members/eb/125/docs/EB-2018-125-R-37-Rev-1.pdf.

Figure 3
Active portfolio
(Millions of United States dollars)



Source: Grants and Investment Projects System as at 7 March 2016–2023 and assumptions on pace of project approvals, entry into force and completion for 2023–2024.

63. **With an expanding PoW in IFAD13, continued efforts will be required to enhance portfolio management**. These include:

- **Proactive focus on operational risk management.** In IFAD13, the implementation of the integrated project risk matrix will be strengthened with a focus on consistent risk identification, assessment and definition of mitigating actions, and proactive risk monitoring. IFAD will continue to work with client countries to foster a risk-taking culture based on thorough risk assessments with strong mitigation response plans.

- Increased focus on project procurement. **In IFAD12, a single integrated end-to-end procurement system was developed to facilitate the capture of project data**. In IFAD13, this will help to significantly improve alignment between implementation forecasts developed at project design, annual workplans and budgets and procurement planning.

- **Updating IFAD systems and processes to capture data from multiple sources**. IFAD will continue to ensure that it has the systems and processes to be able to deliver a cohesive PoW. To this end, the focus during IFAD13 will be on embedding data and data analytic tools in core operations from project design to completion, to support targeting, risk and opportunity assessments, and proactive management for improved outcomes.

- **Increasing knowledge management.** Knowledge is intrinsic to IFAD's business model. Generating cutting-edge knowledge helps to increase IFAD's visibility, credibility and influence as a trusted partner. In IFAD13, stronger systems for learning and results monitoring, combined with more efficient use of the knowledge of staff and partners, will support IFAD in its efforts to achieve optimal resource allocation and use. IFAD will update its Knowledge Management Strategy in IFAD13 with a strong focus on the utilization of knowledge for improving projects and data- and evidence-driven policy engagement.

- **Leveraging proximity to strengthen IFAD's responsiveness and engagement at country level.** As an increasingly decentralized organization, IFAD has become even more responsive to the needs of its clients and the rural populations it serves. This has contributed to improvements in project implementation, stronger policy engagement as well as strengthened partnerships with IFIs and other development partners, evident through the higher levels of mobilized cofinancing. The benefits of the Fund's decentralization plan are expected to result in country-level portfolio performance improvements, and strengthened partnerships and policy engagement. These should, in turn, lead to better development results and client satisfaction. The latter will continue to be assessed through IFAD's annual stakeholder surveys.

  In IFAD13, Management will continuously reassess and adjust the roll-out of D2.0, based on IOE's corporate-level evaluation (CLE) of IFAD's decentralization experience, lessons from implementation, and guidance from the Executive Board. The CLE acknowledges that IFAD has successfully transitioned from a country presence model to a decentralized model in a relatively short timeframe, while also noting room for improvement. In this regard, Management is working on a recalibration plan for decentralization.

  The recalibration plan focuses on several key areas, including maintaining the D2.0 timeline and position target of 45 per cent of staff positions in the field. The plan also includes potential reductions in the number of country offices to below 50, while aiming to refine office structures and staffing arrangements. This may involve deferring the set-up of offices in high-intensity conflict countries such as Afghanistan, Yemen and the Central African Republic for the foreseeable future; upgrading specific offices highlighted in the CLE report; and establishing new ones in Benin and Togo. In addition, the plan encompasses a review of the Asia and the Pacific and Latin America and the Caribbean regional offices, their sizes and locations, as well as fine-tuning of the multi-country office model and associated staffing. Moreover, the role of headquarters in a decentralized organization will be fine-tuned. The plan aims to improve onboarding, implement a new reassignment timeline and create dedicated administrative pool functions in regional offices. It also focuses on enhanced communication with staff through a revised communication strategy and a dedicated intranet corner on D2.0 and workforce management, highlighted as one of the key challenges in the CLE.

Enhancing the sustainability and scalability of investments

64. **Sustainability and scalability[42] of results (box 7 below) are key for longer-term impact, which is a priority for client countries.** In IFAD12, the Fund developed a sustainability action plan as well as an update to its scaling-up approach. While implementing these in IFAD13, key areas of focus will be: (i) partnerships, including SSTC; (ii) CLPE; and (iii) promoting innovations.

65. **Partnerships will continue to underpin IFAD's business model and financial framework.** An IOE evaluation synthesis on building partnerships for increased development effectiveness found that for coordination and cooperation at country level, IFAD's strategic partnerships with civil society organizations (CSOs), farmers' organizations (FOs) and Indigenous Peoples' organizations were effective in leveraging policy influence.

66. **Smart partnerships will remain a requisite for the scaling up and sustainability of IFAD's impact in IFAD13**. Partnerships with CSOs, FOs and

[42] Scaling up is part of a broader dynamic and evolving process that runs throughout – and transcends – the project cycle.

Indigenous Peoples' organizations will continue to be IFAD's distinguishing feature and help to strengthen ownership and accountability. Additionally, the Fund will continue to support the empowerment of CSOs to monitor and report on project results, thus strengthening domestic accountability.

Box 7
Snapshot of scaling up in different dimensions

The South Kordofan Rural Development Programme in Sudan (SKRDP) 2000–2012 is a good example of IFAD working strategically with the Government and communities on grassroots priorities to be brought to scale. Under the SKRDP, successful activities became models to be strengthened and replicated elsewhere in the country. The most important included: (i) an innovative management arrangement for water collection points (*hafir)* by applying a tripartite management agreement between the State Ministry of Water Resources, *hafir* users' associations and localities/rural administrative units; and (ii) a programme approach to implementing social service interventions through community development initiatives, which became a model.

The good practices from the Sustainable Agricultural Production Programme (SAPP) in Malawi were gathered and transferred to other project management units (PMUs) in Malawi and Zambia through a knowledge management community of practice (CoP) that provided a forum for IFAD-funded programmes in both countries to discuss programme implementation issues. The results are captured by ICT solutions to build a repository for lessons learned and best practices.

67. **Partnerships with other United Nations agencies will be optimized at country level through active engagement in United Nations Country Teams** at country level, and through participation in the development and implementation of the United Nations Sustainable Development Cooperation Frameworks. Mutually reinforcing partnerships with RBAs will be critical in the context of the current food crises, as will the humanitarian-development nexus. Additionally, IFAD will step up its partnership with WFP in the context of fragility.

68. **Strategic partnerships with other IFIs[43] will also be essential to assemble and deliver finance for impact**. In practical terms, these partnerships will contribute to moving to scale as well as leveraging large-scale development financing to build inclusive rural economies. Moreover, IFAD will continue to develop its new IFI partnerships (box 8), such as with EIB and the Asian Infrastructure Investment Bank (AIIB), while strengthening existing ones – for instance with the World Bank – through increased joint analytical work and building new approaches. IFAD will also expand its partnerships with subregional and national development banks as well as development finance institutions.

Box 8
Leveraging partnerships to assemble finance for impact – an example from Cambodia

The Sustainable Assets for Agriculture Markets, Business and Trade (SAAMBAT) project in Cambodia is an excellent example of how international collaboration among IFIs can effectively deliver positive and tangible change in rural communities. The SAAMBAT project is financed by a U$53.3 million loan and U$1.2 million grant from IFAD, a US$57.6 million loan from the EIB and a US$12.41 million contribution from Cambodia.

The SAAMBAT project aims to employ at least 4,500 rural youth, develop 500 SMEs and train 25,000 rural value chain actors to use digital technology. Approximately 650 km of rural roads and 75 market facilities will also be built or rehabilitated.

69. **IFAD's role in the follow-up of the 2021 United Nations Food Systems Summit (UNFSS) will be an important focus of partnerships at the country, regional and global levels**. IFAD will continue to lead the financing agenda on food systems transformation, together with the World Bank. It will also lead the coalition of agricultural public development banks (PDBs), which are key for the mobilization of public and private finance. PDBs are working on the Platform for Green and Inclusive Food Systems, which will support members in increasing lending to food systems transformation. In addition, IFAD will continue to co-lead the Coalition on Decent Work, Living Incomes and Wages for Food Systems

[43] This will include: World Bank; AfDB; Asian Development Bank (ADB); AIIB; EIB; Islamic Development Bank (IsDB) and IDB.

Workers (DWLIW), together with the International Labour Organization (ILO) and CARE International.

70. **Increasing requests for SSTC demonstrate the growing importance of this modality of partnership for enhancing rural livelihoods**. SSTC also continues to be an important engagement modality with upper-middle-income countries (UMICs), which are valuable sources of knowledge and expertise. IFAD's approach will continue to be guided by its SSTC strategy,[44] which pursues the identification and dissemination of innovative solutions as well as policy dialogue to amplify development results on the ground. SSTC promotes regional cooperation through joint mobilization of financial and technical resources to address shared challenges. **In this context, in IFAD13, at least 25 new investment projects with SSTC initiatives will be designed.**

71. **Building on IFAD12 commitments, the Fund will enhance multi-stakeholder policy engagement to help the sustainability and country ownership of rural policies**. Under IFAD13, through transformative country programmes, CLPE will continue to serve three essential purposes: (a) enhancing the participation of smallholders and rural people and their organizations in country as well as regional level policy processes; (b) increasing the generation and utilization of evidence for policy development and implementation; and (c) enhancing government capacity in planning, formulating and implementing data- and evidence-informed policies.

72. IFAD will work across the policy cycle, from identification of policy issues to policy implementation, to contribute to improving project impact and enhance IFAD's relevance in the growing number of countries where the government looks to it for knowledge, experience and lessons. **In IFAD13, all new investment projects should be linked to relevant country-level policy goals and supportive evidence-based policy work by IFAD.** This will be done depending on opportunities and based on careful assessments of where it can bring clear value added to these processes with the goal of amplifying impact. IFAD's geographical proximity to government counterparts and in-country development partners is expected to facilitate IFAD's presence and influence in relevant policy processes and forums.

73. **In IFAD13, the Fund will continue to enhance its focus on innovation, given the tremendous potential for scaling up.** At country and project levels, IFAD will continue to test innovations, notably through regular grants, following the adoption of the revised grants policy in IFAD12. The focus will be on innovations to: (i) build on existing use of geospatial and other digital technologies to improve geographic and beneficiary targeting, particularly in fragile contexts; (ii) leverage IFAD's regular grants to pilot and test product innovations that can be integrated and taken to scale within IFAD's investment portfolio; and (iii) enhance target group access to market information and services. In this regard, at least 20 new investment projects will integrate innovative approaches, including ICT4D or digital agriculture.

74. **At the institutional level, in IFAD13, the Fund will continue to embed an innovation culture, notably through its Innovation Challenge.** This will continue promoting risk-taking initiatives associated with novel solutions and approaches for inclusive food systems transformation (see example in box 9). IFAD will also continue to enhance the IFAD Innovation Network, which provides a space for ideas and good innovation practices to be shared. IFAD will support capacity-building of its staff on the use and adoption of the United Nations digital innovation toolkit,[45] in partnership with the United Nations System Staff College, the UN

[44] https://www.ifad.org/en/-/documents/sstc-strategy-2022-2027.
[45] The Toolkit was designed around five foundational elements that are critical when enabling, fostering and mainstreaming innovation - Strategy, Partnerships, Architecture, Culture and Evaluation (SPACE).

Innovation Network and the alliance of innovation units of IFIs (moonshots for sustainable development). Management will also continue exploring integration of behavioural science driven approaches in its work, as well as other elements of the Quintet of Change,[46] identified in the Secretary-General's Common Agenda.

Box 9
Investing in innovations for climate action

With pilot funding through IFAD's Innovation Challenge, the climate risk project with DiGi aims to increase smallholder incomes and resilience to climate change through the use of a climate credit risk application. In partnership with YAPU Solutions and Sudanese financial institutions, the project tests Yapu's climate credit risk app in the field for scaled integration into other inclusive rural finance activities by IFAD.

Employing massive streams of climate data from the Alliance of Bioversity International and the International Center for Tropical Agriculture, and other sources, as well as the use of artificial intelligence (AI) (under development), the app assesses the climate risk associated with loans to smallholder producers. It considers context-specific climate adaptation technologies and lending methodologies, providing transparent, traceable and cost-efficient loans. The Arabic version of the app incorporates climate risk exposure maps focusing on five major climate threats faced by smallholder agriculture and livestock activities. Sixty prioritized adaptation investment categories have been identified, and net climate risks are calculated via exposure, sensitivity and adaptive capacity. The app can also identify practical and affordable smallholder production adaptation strategies and technology investments.

The pilot will inform IFAD on how to integrate commercial financial applications similar to Yapu into its PoLG at scale, providing the capacity to identify and monitor via a central dashboard, climate risks and climate finance activities on a programme, country, regional and international scale.

B. Strengthening institutional effectiveness

75. **IFAD has invested significantly over the past few years to enhance its institutional architecture**. This included several reviews to improve the efficiency of business processes, a review of staffing levels and capacities, and implementation of an extensive People, Processes and Technology Plan (PPTP). Significant progress has been made across the three workstreams, as noted in the annual PPTP update.[47]

76. During IFAD13, at an institutional level, the Fund will consolidate already initiated reforms and focus on two key institutional priorities: (i) optimizing the use of resources through streamlined budgeting; and (ii) an increased focus on the workforce.

Streamlining budgeting to achieve impactful results

77. **In IFAD13, the Fund will ensure that it is fit for purpose to deliver an increased PoW with the right level of administrative budget resources**. Following comprehensive structural reviews, IFAD's administrative costs will be critically assessed to ensure that operations are sufficiently resourced. In line with recommendations from the CLE on decentralization, the Fund will ensure that an adequate share of IFAD's administrative budget is allocated to country programmes in line with the IFAD13 priorities. Programme delivery will remain the highest corporate priority in the allocation of scarce resources. IFAD's ongoing budget reforms will continue to drive for efficiency. Given the rising costs of operating in increasingly challenging contexts, in IFAD13 a minimum real growth of between 2 and 3 per cent could be expected.

78. **In IFAD13, the Fund will further align budget planning and monitoring processes with organizational, strategic and performance goals**. This will continue to ensure that a set of overarching principles around IFAD's structural proposals, with clear budget implications, are defined early in the process. By IFAD13, the Fund will shift to a rolling forecast approach to better plan and utilize budgets for operations, based on replenishment cycles. As part of enhanced budget monitoring, IFAD will introduce procedures and tools, such as business intelligence dashboards. These dashboards will report on historical analyses of departmental

[46] https://www.un.org/sites/un2.un.org/files/2021/09/un_2.0_-_quintet_of_change.pdf.
[47] https://webapps.ifad.org/members/eb/137/docs/EB-2022-137-R-42.pdf.

spending and capture any underspending to deliver either to other budget areas or the carry-forward.

79. **IFAD will enhance its budget culture, based on accurate collection, tracking and use of data in decision-making.** Improved and newly designed budget systems will be tailored to integrate budget formulation and preparation systems with other existing enterprise resource planning systems. In addition, **IFAD's cost allocation methodology will be reviewed and revised** to better capture, track and measure administration and operational costs.

80. Building on the benchmarking analysis with other United Nations agencies and IFIs, in IFAD13, the Fund's intention is to move towards the implementation of specific efficiency ratios that differentiate between direct and indirect costs. This will further: (a) enhance IFAD's capacity to measure and manage for efficiency and results; (b) facilitate the annual planning process; and (c) create the right organizational incentives to channel limited resources to achieve results.

Fostering an enabling workplace culture

81. **During IFAD13, special focus will be on IFAD's workforce, including ensuring that it is well equipped to deliver, while fostering an enabling workplace culture.** IFAD will continue to work on its corporate workplace culture initiative to address issues raised by staff in the Global Staff Survey and support staff in operating effectively in a more decentralized context. In IFAD12, action plans were prepared to reduce the vacancy rate, respond to the key staff concern of excessive workload, and ensure a smoother onboarding experience for staff in the field. These action plans will continue to be implemented in IFAD13. Another key corporate priority that will remain relevant in IFAD13 is the focus on streamlining and simplifying business processes.

82. In terms of **workplace culture**, the emphasis will be on ensuring that IFAD Management leads by example by demonstrating IFAD's core values. Moreover, standardized objectives on people management, recruitment and workplace culture have been introduced into the performance evaluation of directors and supervisors, and these will be carefully assessed in IFAD13. In this context, the Fund will continue to monitor staff engagement and well-being through the staff engagement index, as part of the GSS, and through pulse surveys.

83. **In IFAD13, the Fund will continue to implement activities to ensure a diversified workforce, which is also equitable and inclusive,** in line with the Strategy on Diversity, Equity and Inclusion (DEI).[48] IFAD will continue to measure and report on targets towards progressively achieving gender parity and geographical representation. More specifically, IFAD will focus on increasing representation of women at senior levels (percentage of women in international Professional staff positions – P-5 and above); gender parity in all grades (percentage of male and female staff in all grades); and representation of List B and C countries among international Professional staff.

84. **Upskilling and re-skilling play a critical role in IFAD's overall talent management to achieve a workforce that is fit for the future of the organization.** Staff upskilling/re-skilling needs will be assessed on a continuous basis in the context of performance management and learning interventions will be planned accordingly, within the available budgets. An important focus of upskilling and re-skilling will be to continue strengthening the operational and technical knowledge and capacity of staff delivering IFAD programmes at country level. This effort will continue through the revamped Operations Academy and the D2.0 field staff upskilling programme.

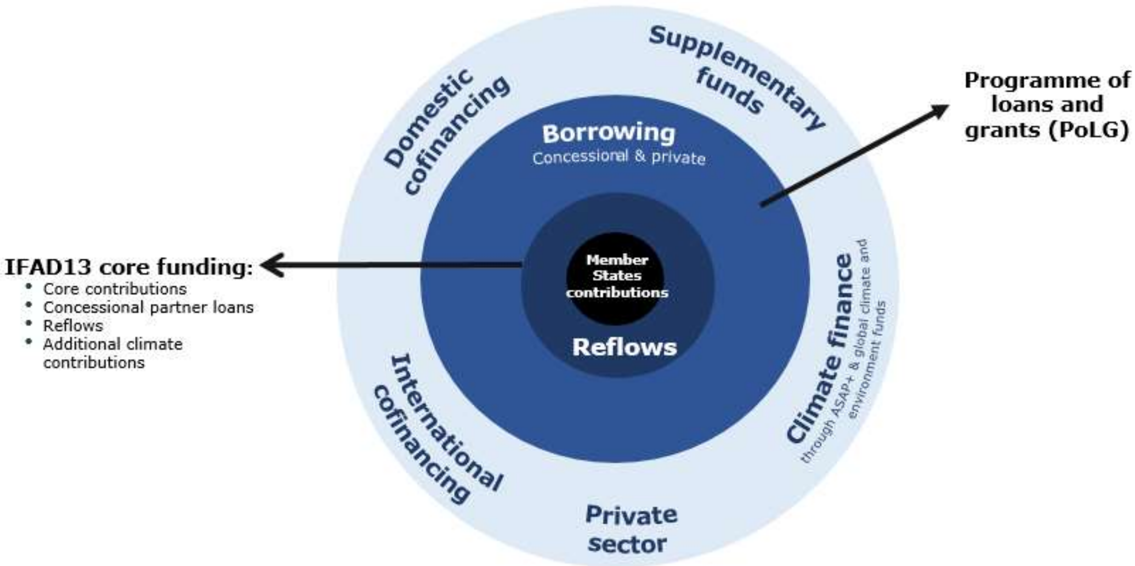
[48] https://webapps.ifad.org/members/eb/134/docs/EB-2021-134-R-9.pdf.

85. **The Fund will remain strongly committed to fighting sexual harassment (SH), sexual exploitation and abuse (SEA) and to fighting hate speech, racism and discrimination in all its activities and operations**. During IFAD13, IFAD will continue adopting biennial SH/SEA action plans, with concrete deliverables, to be shared with the Executive Board. These plans will continue to be based on the following strategic areas: prevention, response and mainstreaming SH/SEA in IFAD's operations and funded activities. Consistent with its commitment to fight hate speech, racism and discrimination, IFAD will continue its efforts in line with its Action Plan.[49] This workstream will continue to contribute to IFAD's holistic approach as defined in the DEI Strategy.

C. Assembling and leveraging development finance

86. **IFAD has made notable strides in strengthening its financial architecture, especially during IFAD12.** IFAD's strengthened financial architecture, whose bedrock continues to be core resources, provides a sound basis for the necessary growth in the PoW (figure 4). Specifically, IFAD introduced a set of both new and revised policies to enhance its financial soundness. It also invested in strengthening internal financial capacity and risk management and created a robust risk apparatus and culture. This resulted in a AA+ credit rating in 2021 and 2022. These efforts, combined with the development of the Integrated Borrowing Framework (IBF)[50] – have enabled the Fund to diversify its borrowing sources and tools considerably.

Figure 4
IFAD 13: A financial platform for an expanded PoW



Strong core funding: A prerequisite to maximize concessional resources

87. **Core funding will remain the backbone of IFAD's financial architecture, driven by Member States' replenishment contributions**. In IFAD13, core funding will include core contributions, reflows, concessional partner loans (CPLs) and new additional climate contributions. The Fund will further maximize its concessional support to the poorest countries, within prudential limits that maintain its own financial sustainability. IFAD13 will continue to preserve a significant level of concessionality[51] (grant element) for its core resources, as it will be critical to deepen support to eligible LICs and vulnerable lower-middle-income countries (LMICs) to address their limited debt absorptive capacities. In doing so, IFAD will

[49] https://webapps.ifad.org/members/eb/132/docs/EB-2021-132-R-13.pdf.
[50] https://webapps.ifad.org/members/eb/131R/docs/EB-2020-131-R-R-21-Rev-1.pdf.
[51] With lending terms currently applicable.

safeguard its universal mandate, while scaling up its role as an assembler of sustainable development finance to enhance rural livelihoods and make them resilient.

88. **CPLs, with their significant grant element and short drawdown schedule,**[52] **will continue to be instrumental in further improving IFAD's financing capacity**. In IFAD13, CPLs will remain critical to IFAD's concessional funding strategy, especially given the unsustainable debt situation of many LICs. CPLs form part of IFAD's core resources and are deployed to support lending to IFAD's borrowers through concessional loans (see annex V). In IFAD13, building on CPLs' favourable financing conditions, IFAD will devote renewed attention to mobilizing CPLs. In addition and in limited cases, thematic CPLs may be considered.

89. **Management proposes that the IFAD13 Consultation considers** establishing additional climate contributions (ACCs) as a new category of financial contributions. ACCs would be established building on lessons learned from IFAD's experience with the Adaptation for Smallholder Agriculture Programme (ASAP) and unrestricted complementary contributions (UCCs). Should they be established, they would be additional to core contributions (to avoid substitution risk) and would become the preferred means of accepting 100 per cent climate finance contributions from IFAD Member States, from IFAD13 onwards.

90. As ACCs would count as core resources, they would be fully integrated into IFAD's balance sheet. They would follow current governance processes and operational frameworks and arrangements, including results reporting, although separate reporting for ACCs alone would be possible. Financially, they would be provided at the lending terms applicable to recipient countries, including grant terms. They would also contribute to increasing the overall IFAD13 PoLG share of climate finance, as they would serve as a top-up to the targeted non-ACC PoLG share to climate (40 per cent in IFAD12). ASAP+ will continue to be one of the three pillars under the Rural Resilience Programme (2RP)[53] to assemble earmarked supplementary climate contributions that are mainly grant-based. In this way, they can support climate- and biodiversity-related innovations and demand for technical assistance in developing countries.

Prudently leveraging IFAD's capital for an expanded PoW

91. **For IFAD to provide concessional financing to its client base, leveraging IFAD's capital base has been critical.** The success of IFAD13's leveraging strategy is highly dependent on the continuous injection of core contributions, which is also a prerequisite to maintain its credit rating (AA+). The borrowing toolkit will be driven by IFAD's strategic priorities, as agreed by Management and Member States, and in line with the IBF. Within agreed financial policies and allocation commitments with Member States, under IFAD13, Management will seize opportunities to increase the predictability of borrowing in the most efficient and cost-effective way.

92. **During IFAD13, it will be critical for IFAD to broaden its borrowing toolkit.** In doing so, it is important to recall that **different types of borrowing are not financially interchangeable.** This implies continuing to manage borrowing prudently at balance sheet level, maintaining the balance between: (a) demand; (b) borrowers' debt absorption capacities; and (c) financial terms of borrowing and onlending.

93. **The expanded borrowing toolkit would consider the following, taking into account their respective challenges:**

[52] Over a maximum period of three years.
[53] https://www.ifad.org/en/rural-resilience-programme.

- **Sovereign loans.** These can be a flexible tool to provide long-term financing and establish partnerships, potentially across the eligible income category spectrum. IFAD has acquired extensive experience in negotiating sovereign loans.[54] Depending on the terms and conditions, these loans can support all income categories. Such loans bring attractive financing conditions as well as long-lasting partnerships. This notwithstanding, the main challenge of sovereign loans is their limited and unpredictable availability and their long negotiation time.
- **Private placements.** These have been a significant addition to IFAD's borrowing toolkit since 2022. The revised IBF will further strengthen IFAD's position and credibility as an issuer in capital markets. Private placements, however, are sourced at market terms and cannot support the growth of IFAD's grant or highly concessional offer.
- **Public issuances.** IFAD's journey as a frequent issuer could further benefit from tapping the pockets of institutional investors in non-US$/EUR markets by establishing its name as a specialized issuer. Management will continue to engage with members on the opportunity for such issuances, which could be identified in a number of public, highly liquid local markets. This will further confirm IFAD's visibility in the capital markets and allow IFAD to offer highly competitive financing terms to eligible borrowers, broaden its investor base, and increase private sector resource mobilization in support of its core mission of investing in the rural poor.

Assembling development finance by mobilizing cofinancing and supplementary resources

94. **As an assembler of finance, IFAD strives to mobilize high levels of domestic and international cofinancing.** In delivering transformative country programmes, IFAD will continue to emphasize the mobilization of concessional international cofinancing to drive additionality and complementarity. In IFAD13, IFAD will increase its cofinancing target to 1.6 from 1.5 in IFAD12. Domestic cofinancing is a strong determinant of country ownership and commitment. IFAD acknowledges that mobilizing higher levels of domestic cofinancing is challenging. Nonetheless, in IFAD13, IFAD will continue with its ambition of a domestic cofinancing ratio of 0.80 despite the challenging economic environment in many countries.

95. **In IFAD13, besides focusing efforts on assembling cofinancing, the Fund will also ensure further prioritization and alignment of supplementary resources with IFAD's core programmes.** IFAD's supplementary resources have been growing over the past replenishment cycle. IFAD will continue to maximize the mobilization of vertical funds and other multilateral fund resources for the benefit of its borrowers. In doing so, IFAD will strengthen its role as a trusted partner and engage with new partners, while strengthening its collaboration with existing partners. In the interests of efficiency, IFAD will promote consolidated multi-donor initiatives.

Increasing scale and predictability of the PSFP for greater impact

96. **IFAD13 will expand the role of the PSFP as a platform to deliver greater impact.** Donor contributions to the PSFP have a high cofinancing multiplier and therefore the potential to deliver impact at a larger scale to small-scale producers and rural populations. Specifically, the PSFP would be more actively used to both catalyse and assemble private sector financing at larger scale, including by supporting or leading the origination and structuring of large-scale investment platforms and structures that will attract private sector businesses and/or financiers

[54] Canada, KfW, the Agence Française de Développement and EIB.

as co-investors or parallel cofinanciers, to create markets and financial linkages benefiting its target group.

97. For this ambition to be achieved,[55] **a new funding model is required to provide the PSFP with predictable and scalable resources** (details provided in annex III). Management explored various options and concluded that an optimal approach would entail a mix of supplementary resources, core contributions from the non-country grant envelope, and borrowing. Additionally supplementary resources and grants will be critical to blend and de-risk in order to enable focus on LICs, LMICs and fragile contexts, while still serving UMICs and safeguarding IFAD's financial stance and credit rating.

98. Under the new funding model, the Private Sector Trust Fund, which was created in IFAD12 to host dedicated resources for PSFP, will continue to be used as the platform to channel supplementary resources from donors to PSFP. These will be used to support high-risk/impact interventions notably in countries with the greatest need. Borrowed resources over the IFAD13 cycle will be used to support PSFP investment activities. This has the benefit of leveraging IFAD's balance sheet to provide PSFP with larger and predictable resources to deliver impact at greater scale. A non-country grant contribution (core contribution) will ensure a minimum predictability of grant resources to complement other capital (notably borrowing). The link to core and borrowing resources will allow the PSFP to deliver larger impact and a larger PoW.

Biodiversity and climate finance as an integral part of IFAD's financing

99. **Over the years, IFAD has been significantly stepping up its ambition in the climate space.** To this end, climate financing is growing both through IFAD's PoLG and flagship programmes and through supplementary resources from global climate funds. By the end of IFAD12, climate financing solely from supplementary resources is foreseen in the range of US$200 million to US$300 million per year.

100. In IFAD13, **climate finance will be an integral part of IFAD's PoW.** In this regard, IFAD will strengthen its role as an assembler of finance, which attracts and combines public and concessional finance with private investments for climate resilience and biodiversity. As stated earlier, IFAD will increase the share of climate finance to 45 per cent of its PoLG (up from the IFAD12 target of 40 per cent), supported by the ACCs.

101. IFAD will expand engagement with the Adaptation Fund, Green Climate Fund and Global Environment Facility. It will continue to strengthen partnerships with public development banks, global climate funds, the private sector and other stakeholders, in order to draw in more financing for biodiversity and climate resilience activities in IFAD13.

Catering to the specific needs of fragile contexts

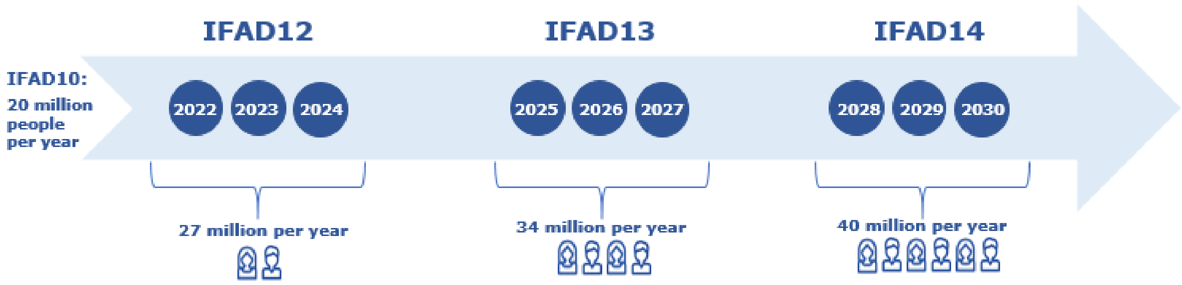
102. In IFAD13, the Fund will strive to increase the level of core resources to countries classified as FCS on the World Bank list. At least 25 per cent of core resources will be committed to FCS, as was done in IFAD12. The scope for further increasing this will be explored as the financial scenarios and resource composition therein are firmed up through the IFAD13 Consultation process. To better address the financing needs of FCS, Management is also exploring how current IFAD Trust Fund mechanisms and initiatives[56] could be adjusted to act as vehicles for mobilization of increased financing for fragility. If these materialize, they would be delivered in a well-coordinated and integrated manner, and complementing IFAD's core resources.

[55] So far, the PSFP has secured contributions of approximately US$27 million from Finland, Germany and Luxembourg, and advanced discussions are under way with other partners for additional contributions.
[56] E.g. Facility for Refugees, Migrants, Forced Displacement and Rural Stability (FARMS) and the crisis response initiative.

IV. Achieving IFAD13 impact ambitions

103. **IFAD13 presents an opportunity to urgently scale up financing to those most in need.** During IFAD12, IFAD set up an ambitious agenda to expand its impact towards 2030, as shown in figure 5. The multiple crises that unfolded in the last three years could derail progress on this impact ambition, should IFAD not succeed in expanding its financing in IFAD13 to serve those most in need. The volatility of the current environment also makes it challenging for IFAD to stay the course vis-à-vis its financial commitments towards the poorest countries and ensuring concessionality. Nonetheless, IFAD will optimize its balance sheet to strengthen its financial capacity. This is in line with the call from the international community for MDBs to boost their lending to those most in need and to address climate change challenges, while preserving financial sustainability.

Figure 5
Ambitions for increased income in each replenishment cycle in order to maximize impact by 2030



104. For IFAD13, four scenarios are presented in table 1 for discussion. **For IFAD to deliver on its impact ambition in IFAD13, Management deems scenarios C and D the most adequate, albeit at this early stage of the Consultation process**. Specifically, under these two scenarios, the higher level of core funding will support LICs and LMICs to address multiple crises, increasing climate shocks and high debt vulnerabilities. These scenarios will allow the Fund to preserve a significant level of concessionality of its core resources and leverage its balance sheet. This will enable IFAD to achieve its principle of universality, while attracting traditional and non- traditional investors to crowd in additional financial resources.

Table 1
Replenishment scenarios for IFAD13

IFAD13 Member State contributions (Millions of United States dollars)	A	B	C	D
Required new donor contributions	1 380	1 655	1 790	1 930
Additional climate contributions	0	150	200	250
CPLs	150	200	250	300

105. The scenarios assume an efficient utilization of the available capital base of new contributions, coupled with a progressive approach to leveraging. The key strategic variables include the size of the replenishment, the level of partner contributions, the potential targeted leverage and the level of concessionality of the overall financing package. (Annex IV presents detailed financial model assumptions.)

106. IFAD's target replenishment contributions are critical to achieve expanded PoLG targets across the scenarios. Table 1 provides a summary of the **replenishment target** by types and volumes of contributions needed. In addition to Member State contributions ranging between US$1.38 billion and US$1.93 billion, the proposed scenarios include the targeted volume of ACCs, ranging from US$150 million in scenario B to US$250 million in scenario D. In IFAD13, building on CPLs' favourable

financing conditions, IFAD will devote renewed attention and efforts to CPL mobilization. This is reflected in CPL targets ranging from US$150 million in scenario A to US$300 million in scenario D.

107. **IFAD will manage the trade-offs between key financial variables,** as presented in table 2. Should any of the key variables not materialize at the targeted levels, IFAD would need to adjust the other variables to ensure its financial sustainability accordingly. For example, a lower replenishment or lower CPLs/ACCs would not only have a direct impact on IFAD's ability to provide grants, but also impact IFAD's ability to lend through the performance-based allocation system (PBAS), thereby reducing the PoLG.

Table 2
Key financial indicators by scenarios for IFAD13[57]

	IFAD13 use of resources (Millions of United States dollars)	***IFAD12****	***A***	***B***	***C***	***D***
Use of resources	***Total concessional resources (1)***	***1 880***	***1 930***	***2 185***	***2 315***	***2 450***
	*of which sustainable granting capacity***	*500*	*550*	*655*	*700*	*850*
	Grant element of concessional resources (%)	***65***	***67***	***68***	***68***	***69***
	Total non-concessional resources (2) *(total ordinary terms resources provided)*	***1 470***	***1 310***	***1 455***	***1 535***	***1 610***
	of which Private Sector Financing Programme		*90*	*90*	*90*	*90*
	Programme of loans and grants (PoLG) (1+2) *(total commitment capacity)*	***3 350***	***3 240***	***3 640***	***3 850***	***4 060***
	Grant element of overall commitment capacity (%)	***44***	***47***	***47***	***47***	***48***
	Programme of work	***8 180***	***8 535***	***9 540***	***10 080***	***10 625***
	Debt-to-equity ratio (%)	***31***	***35-39***	***35-38***	***35-37***	***35-37***

* Include the overall granting capacity and concessional loans denominated in SHC, HC and blend terms.
** Include grants for countries in debt distress, buffer for countries in debt distress and regular grants.
*** As at March 2023.

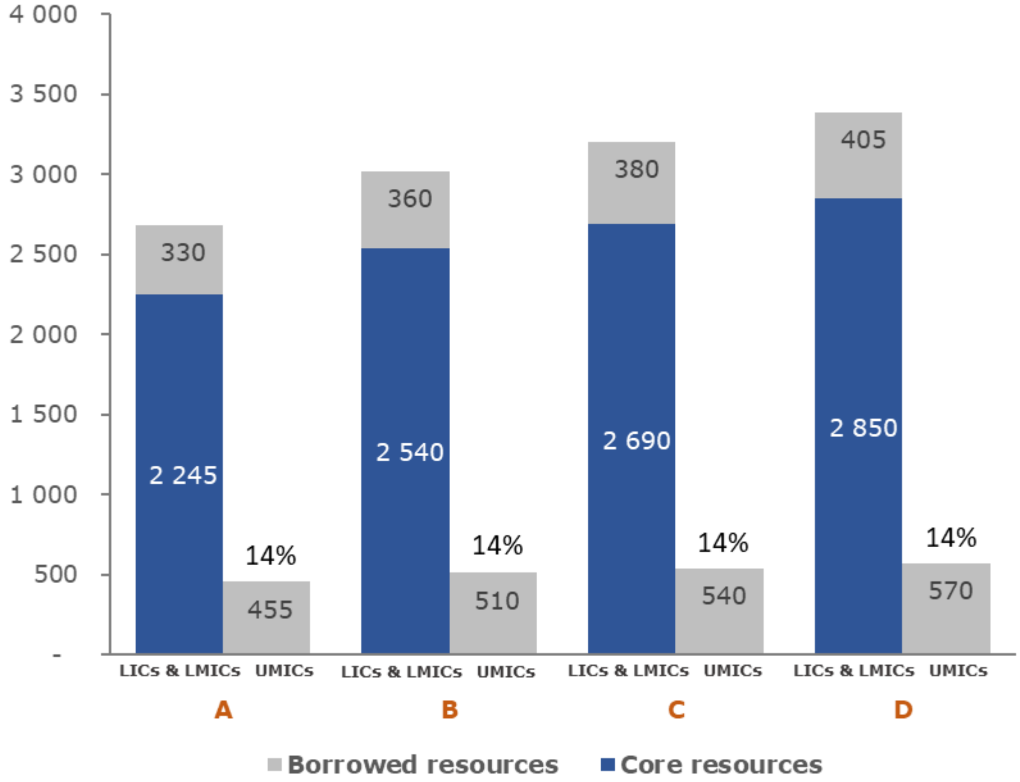
108. **IFAD will safeguard the long-term benefits of reforms introduced in previous cycles to ensure financial sustainability.** Specifically, this means further enhancement of the sustainable replenishment baseline (SRB).[58] The SRB should cover at least: (i) pre-financing of new country grants commitments; (ii) regular grants, including the proposed allocation to PSFP; (iii) operational expenses projected for the replenishment cycle; (iv) the timely reimbursement of forgone principal reflows from approved DSF commitments falling due in the replenishment cycle; and (v) the set-aside to address debt distress degradation during the cycle and potential needs for additional grants financing. Should IFAD not secure a significant increase in IFAD's equity (hence core contributions) and access to other sources of financing, particularly in the form of additional concessional and non-concessional borrowing, it would have implications for the size of the PoLG, and thereby the PoW and impact achievable.

[57] Annex IV provides the definition and full details on: total PoLG, sustainable granting capacity, level of concessionality, PSFP programme of work, leverage ratio (debt/equity), deployable capital and disbursements/programming trade off.
[58] The SRB was introduced through the DSF reform, approved by the Executive Board in December 2019.

Maximizing resources to those most in need

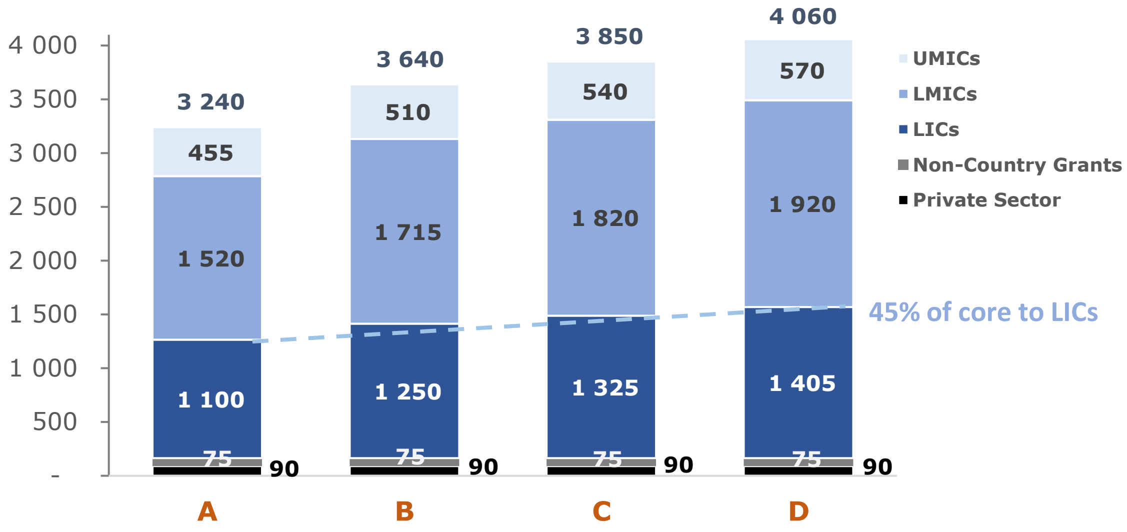
109. **In IFAD13, IFAD will continue to allocate 100 per cent of core resources to LICs and LMICs.** In addition, it will maximize the concessional resources to LICs to a level of 45 per cent of all IFAD13 core resources; this is an increase compared to the share of core resources that LICs received in IFAD12, which stood at 42 per cent. IFAD will also ensure that 55 per cent of core resources are allocated to Africa, including 50 per cent to sub-Saharan Africa. Borrowed resources will finance eligible LICs and LMICs, the totality of UMICs, and private sector financing. The share of resources accessible to UMICs will remain within the 11 to 20 per cent of PoLG range to which IFAD committed in IFAD12. In the current financial scenarios, resources accessed by UMICs are estimated at similar levels to those of IFAD12, at 14 per cent of the PoLG. The higher replenishment scenarios, the higher the volume of both core and borrowed resources available to all countries in United States dollar terms. Figure 6 presents how core and borrowed resources are channelled in the four scenarios.

Figure 6
IFAD13 scenarios: Distribution of core and borrowed resources for sovereign operations, by income category
(Millions of United States dollars)



110. Scenario A in figure 7 reflects a decrease in resources provided to LMICs and UMICs, while LICs benefit from the stabilization of their allocation at 45 per cent of core resources. The resource distribution by income category analysis shows that only in scenarios C and D will IFAD be in a position to provide an incremental increase or stable distribution across all income categories compared to IFAD12.

Figure 7
IFAD13 PoLG scenarios: Public sector financing distribution by income category
(Millions of United States dollars)



111. **In IFAD13, IFAD proposes to maintain the existing country selectivity principles and maintain the number of countries accessing financing at a maximum of 80**. The application of country selectivity criteria ensures that each country receives sufficient funds to achieve sizeable results; it enhances the predictability of resources available; and it increases efficiency for IFAD as it results in fewer resource reallocations.

112. **For public sector lending, the PBAS and Borrowed Resource Access Mechanism (BRAM) will remain the two key resource distribution mechanisms for IFAD13**. The PBAS will be used to set country allocations derived from core resources, while borrowed resources will be accessed through BRAM. IFAD will continue to focus core resources on LICs and LMICs, while resource access through BRAM will be available to eligible LICs, LMICs and UMICs. The analysis hereafter compares the different scenarios by resource type, income category allocation and type of financing provided.

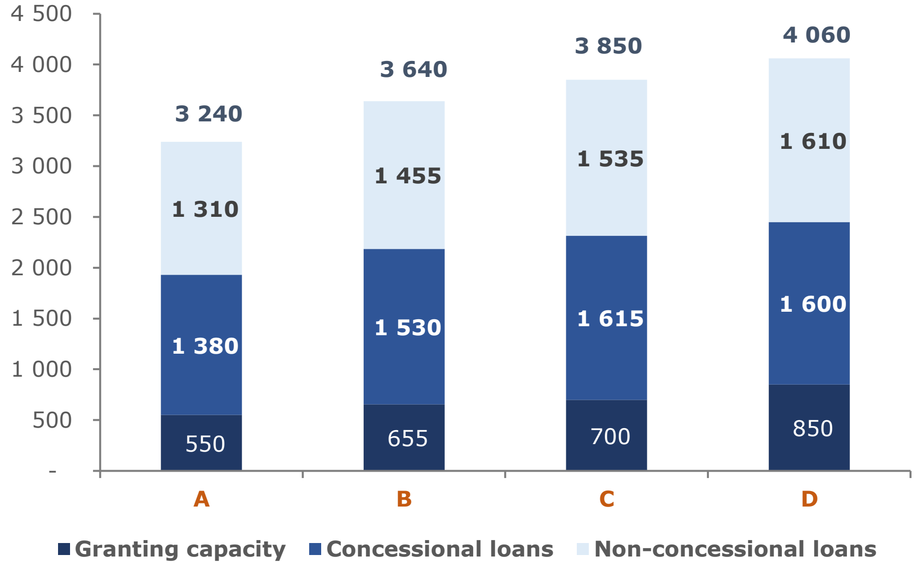
Ensuring concessionality in IFAD13

113. **IFAD13 will focus on addressing the concessional needs of LICs, particularly those with debt distress or vulnerabilities, by increasing by 5 per cent the total envelope of granting capacity.** This is despite a reduction in the overall size of the PoLG in the low scenario (representing the IFAD12 level with 8 per cent inflation). As shown in figure 8, as the core resources grow across the scenarios, grants grow at an even faster rate, increasing by 50 per cent from approximately US$550 million in scenario A to US$850 million in scenario D. This also presents an increase compared to the IFAD12 level, which was approximately US$500 million.

114. The variation across scenarios shows stability of the share of the overall concessional envelope (formed by the granting capacity and the concessional resources) at around 61 per cent. This reflects the Fund’s financial concessionality to the poorest countries, while ensuring its universality: a third of its resources are denominated in ordinary terms,[59] which can be absorbed mainly by LMICs, UMICs and private sector funding.

[59] With current market conditions, the ordinary term loans are classified as non-concessional as per the IMF definition.

Figure 8
IFAD13 scenarios of PoLG by type of financing
(Millions of United States dollars)



115. **Based on the above analysis of the financial scenarios, the key messages are:**

- **Scenarios C and D would allow IFAD to provide more significant grants and concessional financing** to address the needs of its developing Member States. Weakened debt sustainability in several LICs and emerging markets (mainly LMICs) increases the likelihood of further growth in the need for grants and super/highly concessional loans, which would in turn increase the required donor contributions. For example, every US$1 million increase in grant financing (replacing US$1 million in highly concessional loans) would require donor contributions to increase by approximately US$1 million. Moreover, for countries (at moderate risk of debt distress) still receiving super highly concessional loans (with a tenor of 50 years), weakened debt sustainability typically entails higher capital requirements to support portfolio credit risk.

- **Scenario D would allow a PoLG of up to US$4.06 billion**, **enabling countries constrained by rising debt and interest rates to urgently address global challenges.** This scenario would increase IFAD's support to the most-indebted countries and LICs, through a maximum sustainable level of grant financing of up to US$850 million, almost a 50 per cent increase in the granting capacity compared to IFAD12. IFAD's total concessional financing to LICs would increase by 32 per cent compared to IFAD12 (from US$971 million to US$1.3 billion). This incremental increase would benefit further the 23 countries,[60] to whom a 30 per cent share of core resources is provided, and recently identified by the IMF as highly vulnerable to the food crisis and debt vulnerability. In addition, this scenario would allow IFAD to expand resources provided to FCS. Finally, under this scenario, IFAD would be able to maximize its grants to countries in debt distress, if the level of grants was not subject to the sustainable granting capacity concept.

[60] Taking an even broader set of factors beyond food insecurity into account, including debt, fiscal balance, quality of economic institutions and sociopolitical environment, a recent IMF paper identified 23 countries as highly vulnerable to the food crisis: Afghanistan, Burkina Faso, Burundi, Central African Republic, Chad, Democratic Republic of the Congo, El Salvador, Ethiopia, Malawi, Mali, Mozambique, Niger, Nigeria, Pakistan, Sri Lanka, Syrian Arab Republic, South Sudan, Somalia, Sudan, West Bank and Gaza, Yemen, Zambia and Zimbabwe.

- **Scenarios C and D would lead to the most contained debt/equity ratio** of between 35 and 37 per cent. On the other hand, in scenarios A and B, the needed leverage would be higher to sustain a level of PoLG close to IFAD12. In all scenarios, IFAD would preserve its universality towards creditworthy UMICs by providing approximately 14 per cent of PoLG.

Channelling financing towards amplifying impact

116. **Delivering impact at the scale needed to offset the impacts of multiple global crises on poverty and food insecurity will require an ambitious PoW.** It will become more difficult and costly for IFAD to achieve impact, especially as it serves increasingly indebted countries and countries with fragile contexts, which are also facing frequent climate shocks and crises.

117. **Estimates show that scenarios C and D result in a PoW of more than US$10 billion and are expected to impact incomes of between 110 to 116 million rural people.** This puts IFAD on the right trajectory to achieve the ambition of maximizing impact by 2030. Scenario A leads to a PoW of US$8.5 billion and is expected to increase the incomes of between 87 million and 93 million beneficiaries, much lower than the potential under scenarios C and D. Scenario B leads to a PoW of US$9.5 billion and is only likely to reach the ambition in the very optimistic case of a favourable global and national context. Results also suggest that a higher number of people are expected to experience increased incomes in LICs, followed by LMICs, in all IFAD13 financial scenarios.[61]

Table 3
Financial scenarios of PoW and simulations of impact on IFAD's goal and strategic objectives[62]

	IFAD12	A	B	C	D
PoW Millions of United States dollars)	**8 180**	**8 535**	**9 540**	**10 080**	**10 625**
IMPACT *(number of beneficiaries in million)* on:					
Goal: Increased income	**84–89**	**87–93**	**98–104**	**103–110**	**109–116**
SO1: Increased production	68–72	71–75	79–84	83–89	88–93
SO2: Increased market access	68–72	71–75	79–84	83–89	88–93
SO3: Greater resilience	41–44	43–46	48–51	51–54	54–57
Goal: Increased income by country income group (number of beneficiaries in million)					
LICs	43–46	48–51	54–57	57–60	60–64
LMICs	38–41	37–39	41–44	44–46	46–49
UMICs	2	3	3	3	3

Note: PoW includes PSFP.

[61] Given that the IFAD11 Impact Assessment sample is not selected to be representative of country income groups, the results by income group are highly indicative. Increasing uncertainty in the global context makes attribution even more difficult as increased fragility makes achieving impacts in certain countries more challenging, while the current debt situation may also change the composition of borrowing countries in IFAD13.
[62] Impact figures are estimated based on the total PoW derived from IFAD's PoLG. The PoW corresponding to the IFAD13 financial scenarios includes PSFP funding, and IFAD11 Impact Assessment results are used to estimate impact attributed to PoLG in the same way for both PSFP and PoW.

V. Conclusion

118. **IFAD13 comes at a critical juncture, just five years away from delivering the impact needed to leave no one behind and achieve the SDGs.** Since 2019 alone, an additional 150 million people are facing hunger, raising the total to 828 million.

119. With IFAD Member States' collective support towards a substantial replenishment, IFAD can increase the incomes of up to 116 million people, impacting rural poor men and women, youth, Indigenous Peoples and other vulnerable groups. **Investing resources now is critical to secure a future that is inclusive, resilient and sustainable for rural poor people**.

Proposed IFAD13 commitments

THEME/AREA	COMMITMENTS
Framework/strategies/roadmap	1. Update IFAD's Strategic Framework 2. Update Private Sector Engagement Strategy 3. New consolidated strategy on climate, environment and biodiversity 4. Update Knowledge Management Strategy 5. Develop a Paris Alignment roadmap
Operations	1. Increase climate finance target 45% out of which 30%, by 2030, will be for nature-based solutions (NbS) 2. 35% of new projects are gender-transformative 3. 60% of new projects are nutrition-sensitive 4. 60% of new projects are youth-sensitive 5. 10 projects with a significant focus on Indigenous Peoples will be designed 6. Ensure five new projects with persons with disabilities as a target group 7. 10% of new projects use MPPA 8. Reduce the overall number of ongoing investments by consolidated and programmatic approaches (tentative target of 200 ongoing by end of IFAD13) 9. All new investment projects should be linked to relevant country-level policy goals and supportive policy work by IFAD 10. Ensure all new COSOPs are aligned to nationally adopted food system transformation pathways 11. At least 25 new projects with South-South and Triangular Cooperation (SSTC) initiatives designed 12. At least 20 new projects will integrate innovative approaches, including ICT4D or digital agriculture 13. 100% of new country strategic opportunities programmes (COSOPs) with private sector opportunities identified 14. Fragility support unit to be established
Institutional	1. Introduce a rolling forecast approach to budgeting 2. Methodology to calculate efficiency ratios aligned with other comparator organizations
Financing and resource allocation	1. 100% of core resources to LICs & LMICs ensuring that at least 45% are allocated to LICs 2. 25% of core resources allocated to FCS 3. 55% of core resources are allocated to Africa, including 50% to sub-Saharan Africa 4. 11–20% of the programme of loans and grants (PoLG) to UMICs 5. Establish additional climate contributions (ACCs) 6. Adopt the Private Sector Financing Programme (PSFP) funding model 7. Submit a proposal of updates of the Non-Concessional Borrowing Policy to the Executive Board prior to start of IFAD13

Proposed IFAD13 Results Management Framework indicators (2025–2027)

1. This is an initial proposal for the list of indicators that will be included in the IFAD13 Results Management Framework (RMF). The final version of the RMF13, together with indicator definitions and targets, will be presented in an annex to the draft Report of the Consultation on the Thirteenth Replenishment of IFAD's Resources at the third Consultation session in November 2023.

2. The IFAD13 RMF supports the business model and financial framework offer by providing SMART indicators to measure IFAD's development effectiveness, ensuring focus on key priority areas for IFAD13. In areas where data have been collected but are not ready for reporting (e.g. biodiversity), work is under way to allow for reporting from IFAD14 onwards. The IFAD13 RMF builds on the IFAD12 RMF, preserving continuity so that progress can be measured over different replenishment cycles. It aims to simplify and streamline indicators, reducing the total number from 67 to 53, while continuing to shift from rating-based indicators to quantitative ones. Some of the indicators in use during IFAD12 were removed: this is the case for indicators that are reported in other Board documents, or where performance consistently met or exceeded the target during IFAD11 and the first year of IFAD12. Other indicators were removed because they duplicated the metrics already tracked, or were relevant to a specific area already monitored by another indicator. The proposed RMF13 also aims to improve indicator definitions based on the lessons learned in IFAD12. Preliminary indicator definitions will be issued separately in an addendum to this paper.

Tier I – Goals and global context

Code	*Indicator name*	*Sustainable Development Goal (SDG)*	*Data source*
1.1	**SDG 1: No poverty**		
1.1.1	Proportion of population below the international poverty line of US$1.90 a day	1.1.1	United Nations Statistics Division (UNSD)
1.2	**SDG2: Zero hunger**		
1.2.1	Prevalence of food insecurity	2.1.2	UNSD
1.2.2	Prevalence of malnutrition among children under 5 years of age	2.2.2	UNSD
1.2.3	Productivity of small-scale food producers	2.3.1	UNSD

Tier II – Development results

Code	Indicator name	SDG	Data source
2.1	**Impact**		
2.1.1	Number of people experiencing economic mobility	2.3 and 1.2	Impact assessment (IA)
2.1.2	Number of people with improved production	2.3.2	IA
2.1.3	Number of people with improved market access	2.3	IA
2.1.4	Number of people with greater resilience	1.5	IA
2.1.5	Number of people with improved nutrition	2.1	IA
2.1.6	Number of people in households with improved women's empowerment	[placeholder]	IA
2.2	**Project-level development outcome ratings at completion**		
2.2.1	Government performance (ratings 4 and above) (percentage)		Project completion report (PCR) ratings
2.2.2	IFAD's performance (ratings 4 and above) (percentage)		PCR ratings
2.2.3	Efficiency (ratings 4 and above) (percentage)		PCR ratings
2.2.4	Sustainability of benefits (ratings 4 and above) (percentage)		PCR ratings
2.2.5	Scaling up (ratings 4 and above) (percentage)		PCR ratings
2.2.6	Gender equality (ratings 4 and above/ratings 5 and above) (percentage)		PCR ratings - 4 and above
			PCR ratings - 5 and above
2.2.7	Environment and Natural Resource Management (ENRM) and climate change adaptation (CCA)		PCR ratings - ENRM
			PCR ratings - CCA

Code	Thematic areas	Indicator name	SDG	Data source
2.3	**Project-level outcome and outputs**			
2.3.1	Outreach	Persons receiving services promoted or supported by the project	1.4	Core indicators
2.3.2	Access to agricultural technologies and production	Number of persons trained in production practices and/or technologies (millions)	2.3	Core indicators
2.3.3	Inclusive financial services	Number of persons in rural areas accessing financial services (savings, credit, insurance, remittances, etc.) (millions)	2.3	Core indicators
2.3.4	Diversified rural enterprises and employment opportunities	Number of persons trained in income-generating activities or business management (millions)	4.4	Core indicators
2.3.5		Number of beneficiaries with new jobs/employment opportunities	8.5	Core indicators -

Code	Thematic areas	Indicator name	SDG	Data source
				outcome
2.3.6	Rural producers' organizations	Number of supported rural producers that are members of rural producers' organizations	2.3	Core indicators
2.3.7	Rural infrastructure	Number of kilometres of roads constructed, rehabilitated or upgraded	9.1	Core indicators
2.3.8	Environmental sustainability and climate change	Number of hectares of land brought under climate-resilient management (millions)	2.4	Core indicators
2.3.9		Number of households reporting adoption of environmentally sustainable and climate-resilient technologies and practices	13.1	Core indicators – outcome
2.3.10		Number of tons of greenhouse gas emissions (carbon dioxide equivalent [CO2e]) avoided and/or sequestered (million tons of CO2e over 20 years)	13.1	Core indicators
2.3.11	Nutrition	Number of persons/households provided with targeted support to improve their nutrition (millions)	2.1	Core indicators
2.3.12		Percentage of women reporting minimum dietary diversity (MDDW)	2.1	Core indicators – outcome
2.3.13	Access to natural resources	Number of beneficiaries gaining increased secure access to land	1.4	Core indicators

Tier III – Operational and organizational performance

Code	Indicator name	Data source
Aligning programme delivery		
3.1	**Designing for impact**	
3.1.1	Projects designed to be gender-transformative (percentage)	Corporate validation
3.1.2	Climate finance: Climate-focused PoLG	Corporate validation based on the multilateral development banks' (MDB) methodologies for climate finance tracking
3.1.3	Climate capacity: Projects designed to build adaptive capacity (percentage)	Corporate validation
3.1.4	Appropriateness of targeting approaches in IFAD investment projects	Quality assurance ratings
3.1.5	Overall quality of SSTC in COSOPs (ratings of 4 and above) (percentage)	Quality assurance ratings
3.1.6	Overall quality of COSOPs	Quality assurance reviews
3.1.7	Overall rating for quality of non-sovereign operation (NSO) design (ratings 4 and above)	Quality assurance reviews
3.1.8	Indicator on compliance – procurement [PLACEHOLDER]	[PLACEHOLDER]
3.1.9	Indicator on Social, Environmental and Climate Assessment Procedures (SECAP) compliance [PLACEHOLDER]	[PLACEHOLDER]
3.2	**Proactive portfolio management**	
3.2.1	Overall implementation progress (ratings 4 and above)	Supervision ratings

Code	***Indicator name***	***Data source***
3.2.2	Proactivity index	Corporate validation
3.3	**Performance of country programmes**	
3.3.1	Effectiveness of IFAD country strategies (ratings moderately satisfactory and above)	COSOP completion reports (CCRs)
		Stakeholder survey
3.3.2	Country-level policy engagement (ratings of moderately satisfactory and above)	CCRs
		Stakeholder survey
3.3.3	Knowledge management (ratings of moderately satisfactory and above)	CCRs
		Stakeholder survey
Assembling and leveraging development finance		
3.4	**Resources**	
3.4.1	Debt-to-equity ratio	Corporate databases
3.4.2	Cofinancing ratio	Grants and Investment Projects System (GRIPS)
	Cofinancing ratio (domestic)	GRIPS
	Cofinancing ratio (international)	GRIPS
3.4.3	Leverage effect of IFAD private sector investments	Corporate databases
Aligning institutional framework		
3.5	**Institutional efficiency**	
3.5.1	Ratio of IFAD's administrative expenditure to the PoLG (including IFAD-managed funds)	Corporate databases
3.6	**Decentralization and human resource management**	
3.6.1	Decentralization effectiveness	IFAD Country Office survey
3.6.2	Percentage of women in P-5 posts and above	Corporate databases
3.6.3	Staff engagement index (GSS) with DEI-specific indicators	[PLACEHOLDER]
3.6.4	Vacancy rate	[PLACEHOLDER]
3.7	**Transparency**	
3.7.1	Percentage of PCRs submitted within prescribed deadline, of which the percentage publicly disclosed	Operational Results and Management System (ORMS)

Private Sector Financing Programme: Funding model and implementation arrangements

I. Introduction

1. The overall objective for private sector engagement during the IFAD13 period is to develop and deploy incentives for the private sector to engage with small-scale producers and the rural poor in mutually beneficial relationships that allow rural poor people to have improved and more resilient livelihoods, jobs and sustainable on-farm and off-farm activities. IFAD will deliver this through a three-pronged approach that entails enabling, catalysing and assembling private sector investment and partnerships that align profitable investment returns with positive social and environmental impacts. While this strategic direction will continue to rely heavily on sovereign lending, notably for the enabling and catalysing pillars through inclusive value chains development, public-private-producer partnerships (4Ps) and rural finance interventions, the PSFP is expected to deliver a larger programme of work complementing sovereign lending and other IFAD activities. Indeed, building on the progress and capacities developed during IFAD12, and lessons learned by IFAD and other development partners, during IFAD13 the Fund will seek to expand the role of the PSFP to deliver greater impact during these challenging times, when needs are widening, without putting further pressure on increasingly indebted governments.

2. **Objective.** This annex describes the proposed PSFP funding model to deliver on the ambition to scale PSFP impact and lays out implementation modalities for PSFP resources. It does not cover the full range of IFAD's private sector work which, as stated above, will continue to rely heavily on sovereign lending.

II. The proposed funding model for PSFP

3. During the IFAD13 period, the aim of the PSFP is to be more impactful. This ambition requires scaled up and predictable resources for PSFP, which in turn requires a new funding model that does not rely entirely on supplementary resources, as has been the case so far. Management has explored various options (i.e. continue with supplementary resources only, rely on core resources only or employ a mix of funding sources) and has concluded that a suitable approach will entail a mix of supplementary resources, core contributions from the non-country grant envelope and borrowing. This strategy builds on lessons learned by other international financial institutions (IFIs), as summarized in section 3. The main pillars of this funding model are:

   (i) The Private Sector Trust Fund (PSTF), which was created in IFAD12 to host dedicated resources for the PSFP, will continue to be used as the dedicated platform to channel supplementary resources from donors to the PSFP. These will be used to support high-risk/impact interventions, particularly in countries with highest needs.[63]

   (ii) Borrowed resources of approximately US$90 million over the IFAD13 replenishment cycle will be used to support PSFP investment activities. This has the benefit of leveraging IFAD's balance sheet to provide the PSFP with larger and predictable resources to deliver impact at greater scale (which resources from supplementary sources cannot deliver). The risk appetite for the use of these borrowed resources will be commensurate to the overall portfolio risk profile of the IFAD rated entity.

[63] To date, the PSTF has secured contributions in the amount of US$27 million from Finland, Germany and Luxembourg, and discussions are being held with other partners for additional contributions.

4. A non-country grant contribution (core contribution) of up to US$18 million is meant to ensure a minimum predictability of grant resources to complement other capital (e.g. borrowing). PSFP projects will be impactful but also commercially viable (bankable). As borrowed capital entails repayment obligations and interest servicing, its uses require a prudent approach to deployment. When necessary, grant resources will be utilized for the blending or credit enhancement of operations financed by borrowed resources and allow the deployment of a portfolio to low-income countries (LICs), lower-middle-income countries (LMICs) and fragile situations, along with upper-middle-income countries (UMICs), and broaden its investments along the risk-return continuum. In essence, a portfolio approach will be taken with regards to the programme’s operations.

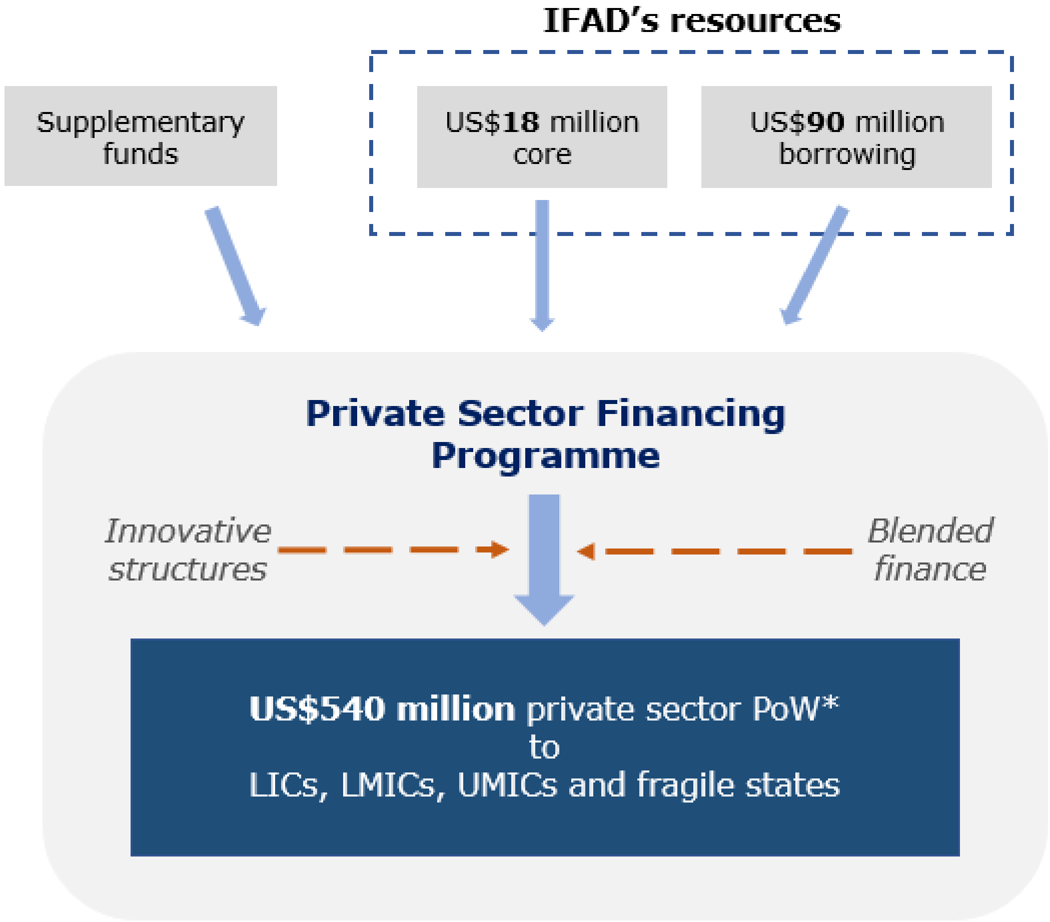
5. As stated above, for a portion of PSFP projects, grant resources will be needed for blending or credit enhancement in respect of borrowed resources. Credit enhancement (or credit protection) refers to de-risking investments, i.e. improving the credit profile of a financial transaction through the use of different techniques. It involves using higher risk appetite capital (such as grant resources) to absorb a portion of the credit exposure of lower risk appetite capital (such as borrowed resources). This is already being practised in the blended finance operations of other development finance institutions (DFIs), and is commonplace in the private sector financial markets. Operationalization can be internal to the investment (e.g. subordination, credit tranching) or external to the investment (e.g. wrapped exposures). Specific guidelines for credit enhancement will be developed if the PSFP funding model for IFAD13 is approved.

6. The rationale to use a small amount of grant resources from the non-country grant envelope to support scaling up the PSFP programme of work reflects the promising impact and leverage achieved by IFAD12 seed funding of US$25 million to the PSFP from this same envelope. Indeed, these resources were used to fund, along with other donor contributions, US$25.5 million in six NSOs with the private sector. These NSOs are expected to attract cofinancing of US$140.7 million and to benefit 403,000 direct and 1.4 million indirect beneficiaries, of whom 60 per cent are expected to be women and 35 per cent youth.[64]

7. With these amounts of IFAD resources, the PSFP is expected to catalyse up to US$540 million in private sector programme of work through the use of blended finance and innovative financial structures entailing a cofinancing ratio of 5.0. Such a ratio is achievable in light of IFAD’s own experience and that of other IFIs. The outreach is expected to be about 5.9 million beneficiaries.

[64] The six NSOs approved by the Executive Board for funding under the PSFP are in the Plurinational State of Bolivia, Cambodia, Madagascar, Mozambique, Nigeria and Uganda.

Figure 1
PSFP proposed funding model for IFAD13



* PoW total volume based on PSFP expected cofinancing ratio to date of 1 to 5.

8. The guiding principle to deploy resources will remain prioritizing countries that need it most while ensuring universality. The actual distribution of the entire PSFP programme of work by country income category will vary based on a number of factors, including the amount of supplementary funds raised for the PSTF and the needed credit enhancement.

III. Implementation modalities

A. PSFP financial instruments

9. According to the Framework for IFAD's non-Sovereign Private Sector Operations and Establishment of a Private Sector Trust Fund (EB 2020/129/R.11/Rev.1), the PSFP financial offering to private sector recipients involves three main financial instruments:

(i) **Debt instruments**, including working capital and long-term loans for capital expenditures (i.e. investment) to eligible agricultural small and medium-sized enterprises (agri-SMEs), cooperatives and selected agri-focused value chain actors; lines of credit and loans to financial intermediaries (FIs), rural and agricultural banks, microfinance institutions (MFIs), commercial banks, investment funds and other types of institutions targeting small-scale producers and agri-SMEs.

(ii) **Risk mitigation**, including risk sharing facilities (RSFs) and guarantees. Small-scale producers may require pre-harvest financing to purchase fertilizers and other inputs, and local banks are not willing to offer financing due to the high risk. An RSF is an agreement into which IFAD would enter – typically with a financial intermediary in order to encourage them to lend to small-scale producers and agri-SMEs or subgroups such as women and youth or for climate. IFAD would share the risk by covering a portion of the losses incurred on an asset or portfolio of eligible assets. IFAD could also extend a guarantee to local FIs willing to take on the risk if offered the appropriate incentives. The guarantee is a promise made to the FI that a certain percentage of the loan amount will be covered in the event of default.

(iii) **Equity instruments.** Equity investments provide long-term growth capital to private enterprises involved in agricultural value chains where equity is needed to add to the capital base of these agri-SMEs, so that they can access more debt funding and increase investment in their operations and fixed assets.

10. In terms of strategic deployment of these instruments, Management adopted a gradual approach starting with simple instruments and prioritized indirect lending early on. So far senior and subordinated debt instruments have been deployed in the six PSFP investments approved by the Executive Board, plus an equity investment in the Agribusiness Capital (ABC) Fund in 2020.

B. PSFP delivery process

11. Based on the lessons learned, IFAD has invested significantly in recent years to build capacity and a sound ecosystem to deliver NSOs funded by the PSFP. The investment team in charge of leading the deployment of PSFP resources is hosted in IFAD’s Private Sector Advisory and Implementation Unit (PAI), a unit created in 2020 to coordinate and lead delivery. Currently, PAI includes dedicated investment professionals with varied experiences, both from other DFIs and the private sector (African Development Bank [AfDB], Inter-American Development Bank [IDB], Oikocredit, East Africa Development Bank, Deutsche Bank). For the delivery of individual investments, PAI is working hand in hand with the Programme Management Department and supported by an entire ecosystem – in particular the Office of Enterprise Risk Management (RMO), the Financial Controller’s Division (FCD), the Environment, Climate, Gender and Social Inclusion Division (ECG) and the Office of the General Counsel (LEG).

12. A series of policies, guidelines and templates have also been developed. These include: the Framework for IFAD non-Sovereign Private Sector Operations and Establishment of a Private Sector Trust Fund (EB 2020/129/R.11), non-sovereign operations design guidelines (2021), credit risk guidelines for non-sovereign operations (2021), legal templates for NSOs (2021, ongoing), non-sovereign operations quality assurance tool (2021), non-sovereign operations impact framework (2022), procurement guidelines for non-sovereign operations (2020), SECAP review note and Environmental and Social Management Plan matrix for non-sovereign operations (2020), and IFAD’s Policy on Disclosure of Documents for Non-Sovereign Operations (EB 2022/136/R.5).

13. The internal review process for PSFP interventions entails two stages:[65]

(i) The concept note stage, in which the project and the recipient are described succinctly including expected impacts and risks, but without a detailed analysis of the recipient’s own data or a field visit. The concept note stage ends with the project concept note (PCN) being discussed in the Operational Strategy and Policy Guidance Committee (OSC) under the guidance of the Quality Assurance Group (QAG), after which the Vice-President approves formal pipeline entry of the PSFP intervention;

[65] RMO is currently reviewing the process to further strengthen and improve it.

(ii) The appraisal or due diligence stage, which entails the meticulous analysis of the proposed intervention from all angles (complementarity with sovereign lending, financial aspects, risks, environmental, social and governance (ESG) issues, additionality, impact), including a detailed analysis of the recipient's own data during a due diligence mission – this stage ends with the project appraisal report (PAR) being discussed in the Investment Resource Committee (IRC), after which the Vice-President approves submission of the PSFP intervention to the Executive Board for approval.

14. In parallel to the PCN and the PAR, independent reports by RMO and ECG are brought forward to the respective meetings of the OSC and IRC, LEG performs a project appraisal and independent legal due diligence (including local law counsel) and the Financial Crime Unit performs a very detailed integrity check on the recipient and its key personnel and stakeholders.

15. In terms of risks, PSFP investments are subject to a rigorous risk assessment to evaluate the potential risks involved. Although credit risk is the main type of financial risk, when dealing with recipients, other risks will be considered depending on the nature of the proposal, including governance, operational, integrity, financial management, fiduciary and commercial risks, as well as the financing instrument being requested.

16. RMO, with the support of FCD, is responsible for the implementation and monitoring of the risk rating system. This is the internal credit risk scoring tool that encompasses sector-specific scorecards and combines internal and external data sources, models and financial templates. Risk assessment is the basis for measuring the risks of individual NSOs and IFAD's overall PSFP portfolio. Risk ratings determine the amount of exposure, negotiate the pricing or yield of a PSFP interventions, devise a suitable structure, guide the supervision process, determine loss given default and probability of default, and facilitate risk migration analysis.

C. Treatment of blended finance operations

17. In order to ensure rigour in the use of blended finance activities, in 2020 IFAD adopted the Enhanced Blended Concessional Finance Principles for DFI Private Sector Operations of the DFI Working Group on Blended Concessional Finance for Private Sector Projects. These principles[66] are as follows:

(i) **Rationale for using blended concessional finance**. DFI support for the private sector should make a contribution that is beyond what is available, or that is otherwise absent from the market, and should not crowd out the private sector. Blended concessional finance should address market failures.

(ii) **Crowding-in and minimum concessionality**. DFI support for the private sector should, to the extent possible, contribute to catalysing market development and the mobilization of private sector resources and minimize the use of concessional resources.

(iii) **Commercial sustainability**. DFI support for the private sector and the impact achieved by each operation should aim to be sustainable. DFI support must contribute towards the commercial viability of their clients. Level of concessionality in a sector should be revisited over time.

(iv) **Reinforcing markets**. DFI support for the private sector should be structured to effectively and efficiently address market failures, and minimize the risk of disrupting or unduly distorting markets or crowding out private finance, including new entrants.

(v) **Promoting high standards**. DFI private sector operations should seek to promote adherence to high standards of conduct in their clients, including in

[66] DFI Working Group 2018, p.8.

the areas of corporate governance, environmental impact, social inclusion, transparency, integrity and disclosure.

18. PSFP projects, or NSOs, entailing the use of blended finance are subject to an additional independent review performed by the Financial Operations Department to ensure adherence to the above principles. This independent assessment is submitted to the various committees (OSC, IRC) and included in documentation submitted to the Executive Board to show clearly how the operation complies with the above principles on blended concessional finance, including calculation of minimum concessionality.

D. PSFP governance

19. The governance of the PSFP currently involves the following bodies:

(i) The advisory committee provides strategic guidance and overall feedback on the PSFP pipeline and activities. Voting members of the advisory committee are donors and contributors providing financial support to the PSFP, including a representative from IFAD.

(ii) The OSC and IRC review the individual transaction features. QAG performs an arm's length review. For blended finance, an independent assessment is performed to assess compliance with the DFI principles on blended concessional finance.

(iii) The Executive Board approves the PSFP project and funding proposals.

IV. Lessons learned

20. Most IFIs have developed programmes to engage directly with the private sector. The experience of these institutions is relevant for IFAD as it seeks to ramp up the PSFP and other forms of engagement with the private sector. Selected lessons are described below and reflected in IFAD's proposed approach described earlier.

21. **International Development Association (IDA) – Private Sector Window.**[67] As part of the IDA18 replenishment, a Private Sector Window (PSW) of US$2.5 billion (out of a total IDA18 envelope of US$75 billion) was created to mobilize private sector investments. The creation of the PSW reflected the importance of leveraging private sector to achieve the SDGs and IDA18 objectives, including the creation of better and more inclusive employment opportunities. While implementation commenced slowly in the beginning, with only one project approved in 2017, utilization of the facility has increased with a now aggregated US$3.19 billion committed (as of April 2023) in support of private sector financing in IDA-eligible countries. Within two years into implementation, there was increased demand for the Blended Finance Facility, Risk Mitigation Facility, Local Currency Facility and Multilateral Investment Guarantee Agency (MIGA) Guarantee Facility, prompting IDA to allocate larger amounts to these four facilities.

22. Lessons learned from the IDA-PSW experience to date include: (i) The impact of the PSW and capacity to deliver requires flexible eligibility criteria for the use of the PSW resources, proven capacity of executing agencies to leverage existing programmes and client relationships in the areas targeted by the PSW, availability of a pipeline of projects suitable for PSW funding, gestation periods of projects in different sectors, and availability of requisite staff training and communication, as well as the approval processes involved. Implementation required, among others, establishing governance structures, developing product and staff rules and guidelines, and educating staff in the use of the different products across several facilities; (ii) the PSW could deliver successful interventions, including in difficult contexts and fragility-affected countries. An evaluation of the PSW shows that its participation enabled the International Finance Corporation (IFC) and MIGA to

[67] https://ieg.worldbankgroup.org/sites/default/files/Data/Evaluation/files/IDAPrivateSectorWindow.pdf.

support high-risk projects in markets and sectors beyond what would have been feasible without the PSW. IDA, IFC and MIGA have, for example, helped turn around a barely functioning telecom sector following decades of conflict in Afghanistan; (iii) the greatest potential for use has been in financial sector projects, which accounted for almost two thirds of approvals since the launch of the PSW IDA18. Yet manufacturing, agribusiness and services accounted for 8 per cent, suggesting limited coverage to these sectors; (iv) the midterm review of the PSW highlighted the potentially large number of small projects (typical for FCS and low-income IDA countries) and pointed to the increased use of programmatic platforms to improve efficiency and control costs.

23. **African Development Bank (AfDB).** Over the last decade, NSOs have increased significantly, contributing to enhancing the Bank's financial position and portfolio diversification. The private sector portfolio supports the Bank's efforts to achieve its overarching objective of spurring sustainable economic development and social progress through transformative projects and programmes.[68] Key driving forces for successful implementation included strong corporate commitment, internal specialized capacity hosted in a dedicated department as well as streamlined internal review processes for NSOs. In order to de-risk its increasing NSO exposure in low-income countries and fragile situations, in 2015 AfDB created the Private Sector Credit Enhancement Facility (PSF) as part of its African Development Fund.[69]

24. AfDB's experience with NSOs has shown that: (i) projects should follow clear eligibility criteria and a prudent risk approach; (ii) the portfolio should always be in line with a clear risk appetite statement, and accompanying governance is necessary to avoid moral hazard; and (iii) an ongoing review of the portfolio should be undertaken to mitigate the risk of financial losses.

25. **Asian Development Bank (ADB).** ADB introduced their private sector window on a pilot basis during the ADF 13 replenishment[70] to help expand private sector operations in group A countries[71] and in a wider range of sectors, including new sectors and non-traditional energy infrastructure.[72] The PSW provides for three financing modalities: (i) local currency solutions; (ii) blended finance solutions; and (iii) credit guarantees and risk sharing, which may be for first or partial loss cover.

26. ADB's experience with NSOs has shown: (i) that appropriate independent governance for a blending facility can also be organized internally, in the case of ADB/PSW via an independent blended finance committee. This committee takes rigorous steps in its decision-making process to safeguard the allocation and deployment of PSW resources to ensure that they are being utilized only for transactions that meet the PSW eligibility criteria.[73]

27. **International Finance Corporation.** IFC has been the leading development finance institution focusing exclusively on private sector development, including through blended finance. A study[74] covering the period 2006 to 2013, showed that IFC committed 39 investment transactions using blended finance, of which three quarters were made through local FIs, where every dollar of concessional finance to FIs has leveraged more than US$13.8 of investment on the ground, including US$9 of IFC investment that would not have occurred without such risk mitigation support. In particular, in 2011, the Global Agriculture and Food Security Program (GAFSP) Private Sector Window was established as the first blended finance

[68] https://www.afdb.org/en/topics-and-sectors/sectors/private-sector
[69] https://www.afdb.org/en/about-us/corporate-information/african-development-fund-adf.
[70] For the 4-year period 2021–2024: https://www.adb.org/what-we-do/funds/adf/replenishments/adf-13.
[71] Those eligible for concessional (ADF) assistance.
[72] https://www.adb.org/sites/default/files/page/536801/2nd-adf13-2020-private-sector-window-suppl-note.pdf.
[73] Examples of PSW: https://www.adb.org/sites/default/files/institutional-document/878876/private-sector-operations-2022-defr.pdf.
[74] https://documents1.worldbank.org/curated/fr/376321487147900261/pdf/112819-WP-Leverage-in-IFCs-Climate-Related-Investments-PUBLIC.pdf.

investment vehicle targeting the food and agriculture development space. With such a new concept, donors agreed to let IFC manage the programme, building upon its in-house industry expertise and processes. The GAFSP portion of the each investment was typically a subordinated tranche, but also could be a lower interest rate tranche or tranche with longer grace period and longer repayment tenor.

28. IFC's experience with NSOs has shown that: (i) blended finance can make a difference in making a project move forward and scaling up climate finance; (ii) blended finance approaches should not be attempted lightly, as discipline and strategic deployment are critical; and (iii) application of blended finance to NSOs in the agricultural and food space is feasible.

Financial scenarios

1. The preparation of the proposed financial scenarios for IFAD13 are based on the main assumptions below:
   (i) Balance sheet updated as of 31 December 2022 in financial model.
   (ii) Additional pledges, concessional partner loan (CPLs) and ACCs are expected to be fully encashed as shown in table 1 on page 27.
   (iii) Loan repayments from outstanding loans are fully encashed per contractual amortization schedules.
   (iv) Growth of operating expenses ranging from 4 to 9 per cent depending on the scenario and related PoLG growth.
   (v) Stressed liquidity buffer above the minimum liquidity requirement.
   (vi) Scenarios were generated applying an inflation rate assumption of 8 per cent to IFAD12.
   (vii) Borrowed resources are all allocated to ordinary term loans (excluding CPLs).
2. **Table 1 below provides** definitions and full details on: total PoLG, sustainable granting capacity, level of concessionality, PSFP programme of work, leverage ratio (debt/equity), deployable capital and disbursements/programming trade off.
   - **Total PoLG** represents the Fund's commitment capacity. It reflects the maximum sustainable programme range that IFAD can provide under each scenario of core replenishment contributions paid in cash, ACCs, level of additional debt assumed (including CPLs) and capital consumption. By definition, in assessing the new PoLG, IFAD commits to disburse previously approved projects while maintaining an appropriate level of liquidity.
   - IFAD will regularly review, intra-cycle, the key determinants of its commitment capacity in line with revised principles for assessing the resources available and adjust the trajectory as needed.
   - **Sustainable granting capacity** is directly related to the level of new core replenishment contributions paid in cash and a portion of ACCs to be provided in grant terms. The granting capacity is determined[75] after deduction of the compensation for past Debt Sustainability Framework (DSF) grants and IFAD's burden share for the Heavily Indebted Poor Countries (HIPC) compensation. IFAD will remain highly relevant to countries in, or at high risk of, debt distress. With at least 54 developing economies – home to more than 50 per cent of people in extreme poverty – suffering from severe debt, IFAD's grants are critical. As the core resources grow across the scenarios, grants grow at an even faster rate, from US$550 million in scenario A to US$850 million in scenario D.
   - Since IFAD12, IFAD has set aside a reserve to address potential debt distress degradation intra-cycle. The reserve ensures that IFAD can support countries whose World Bank/IMF debt assessment may change during a replenishment cycle. Thanks to the reserve, during the IFAD12 period, the Fund has managed to continue to finance operations in two countries whose debt situation deteriorated in 2023, in addition to reengaging with Somalia following arrears clearance. The reserve is proving to be a very useful tool to ensure that IFAD remains engaged in the countries that need its support the

[75] Pursuant to the DSF reform.

most, and IFAD plans to keep it as an element of its financial framework in IFAD13.

Table 1
Breakdown of the sustainable granting in IFAD13 scenarios

IFAD13 scenarios (Millions of United States dollars)	A	B	C	D
Grants to countries in or at high risk of debt distress (1)	425	510	550	700
Reserve for debt distress degradation (2)	50	70	75	75
Non-country grants (3)	75	75	75	75
Of which resources to be used for private sector financing	18	18	18	18
Total sustainable granting capacity (1+2+3)	**550**	**655**	**700**	**850**

- **The level of concessionality** is calculated in two ways: (i) on the envelope forming IFAD's concessional resources;[76] and (ii) on the overall PoLG assuming the current financing terms and allocations derived through the performance-based allocation system (PBAS) and the level of borrowed resources. The level of concessionality of IFAD's financial offer depends on the interplay between three key dimensions: (i) the replenishment level; (ii) the use of capital and the level of borrowing; and (iii) the composition of the overall PoLG as distributed between groups of countries with different financing terms. IFAD13 will continue to preserve the concessionality of its concessional resources, compared to IFAD12, at between 67 and 69 per cent.[77]

- **The PSFP work programme** will be a direct reflection of both its funding strategy and the market demand emerging from its Member States. PSFP's funding will be a mix of: (i) supplementary grants mobilized from donors, through the PSTF and held off-balance sheet, and (ii) a contribution from IFAD's own capital, comprising a small portion of core resources from the non-country grant envelope, while the main part will take the form of borrowed resources held on balance sheet. Specifically, it is proposed that the PSFP be funded through a contribution from the non-country grant envelope of US$18 million and US$90 million from borrowed resources over the IFAD13 replenishment cycle while maintaining the PSTF to mobilize supplementary funds. Funding in these amounts will enable the PSFP to catalyse up to US$540 million in the private sector programme of work through the use of blended finance and innovative financial structures, entailing a cofinancing ratio of 5.0. Such ratio is considered achievable in light of IFAD's own experience and that of other IFIs.

- **Leverage ratio (debt/equity).** Obtaining a credit rating opened up access for IFAD to capital markets. Management envisages a gradual build-up of leverage to ensure that IFAD can serve its clients across the entire spectrum of income categories. The leverage ratio is expected to grow steadily from the current 25 per cent, remaining below the 50 per cent threshold by the end of IFAD14 resulting in an overall sustainable stock of debt of ~US$4 billion. A gradual and prudent increase in debt over the next two cycles translates into an additional debt stock of ~US$200 million to US$250 million per year. At

[76]This envelope comprises the resources provided in the form of grants and in highly concessional and concessional loans as per the IMF definition (i.e. super highly concessional, highly concessional and blend terms).
[77] This level of concessionality reflects the lending terms currently applicable. The rate could slightly decrease following an update of the lending terms.

the same time, it is imperative for IFAD to stabilize its equity to avoid any shocks. This will be achieved by implementing the DSF reform and continuing to of implement a prudent capital adequacy policy.

- **Deployable capital.** Since the approval of IFAD’s Capital Adequacy Policy in 2019, the main internal measure to assess IFAD's capitalization is deployable capital (DC). It is worth noting that not only the internal DC but also external credit rating agencies’ capital ratios are still well above their minimum thresholds. In line with best practices, IFAD’s DC ratio (a risk-based capital adequacy ratio), is complemented by a non-risk-based leverage ratio, which is currently nearing the policy limit.

- IFAD is in the process of conducting a comprehensive review of its capital adequacy policy, based on the results monitored since the approval of the policy in 2019, with close attention to asset characteristics and risk profile. This policy review will incorporate a reassessment of IFAD’s leverage limit. This review takes place following the recent review of the capital adequacy frameworks of multilateral development banks, commissioned from the G20 as an additional effort towards maximizing the resources of MDBs.

- **Disbursements/programming trade off.** It is important to point out that IFAD’s development impact is triggered by the speed of PoLG disbursements. Over the past few cycles, IFAD has taken prudent measures to carefully balance out its liquidity position with the speed of disbursements. Going forward, disbursements will be managed through more granular disbursement envelopes in order to differentiate disbursement speed across various lending terms based on IFAD’s actual cash position. It is imperative also to carefully balance IFAD’s commitment capacity with its disbursement capacity. A significant increase in PoLG unsupported by adequate financial capacity will jeopardize IFAD’s ability to disburse steadily (especially on country grants and concessional loans) and achieve a sustainable level of undisbursed balances.

Terms and conditions of concessional partner loans

1. At its 138th session, IFAD's Executive Board approved revisions to the Integrated Borrowing Framework (IBF) (EB 2023/138/R.8), including removing the terms and conditions relating to CPLs, which had originally been provided in annex I to the Framework.
2. The rationale for this change was that CPLs are instruments closely linked to the replenishment cycle in which they are granted. The terms and conditions of CPLs, including the applicable coupons and discount rates, are recalculated for every replenishment cycle and, for purposes of transparency and fairness towards members, remain stable for the entire cycle. Therefore, a reference to CPLs as one of the allowed borrowing instruments has been retained in the IBF. Nonetheless, from a governance perspective the proper place for the actual terms and conditions is the report of the consultation on the relevant replenishment of IFAD's resources.
3. This annex provides the proposed terms and conditions to be applied to CPLs for IFAD13, only. Following the second session of the Consultation, it will be updated as necessary and incorporated into the draft IFAD13 Consultation Report to be presented to the Consultation at its third session. Relevant elements will also be included in the IFAD13 draft Resolution.
4. The discount rates for IFAD13 CPLs will also be provided in the draft IFAD13 Consultation Report, calculated in accordance with the methodology described below, using values as of 30 September 2023.
5. In order to align the CPL terms and conditions to be integrated into the IFAD13 Consultation Report with those of the revised IBF, approved by the Executive Board in May 2023, the following two new provisions are included in the CPLs terms and conditions:

   (a) **Earmarking.** In limited cases, a thematic instrument, with no earmarking to a specific subset of assets will be considered, provided the proposed theme is in line with IFAD's core mission and has strong linkages to the overall loan portfolio (e.g. climate or private sector).

   (b) **Governance.** CPLs will be subject to the same authorization process as followed for other borrowing arrangements under the IBF.

A. IFAD13 concessional partner loans – terms and conditions

(i) **Maturity.** 25 or 40 years to match IFAD's blend and highly concessional terms. **Upon request, IFAD is able to consider maturities between 25 and 40 years.**

(ii) **Grace period.** Five years for a 25-year loan or 10 years for a 40-year loan. **Upon request, IFAD is able to consider grace periods of between 5 and 10 years.**

(iii) **Principal repayment.** Principal repayment will begin after the grace period, applying straight-line amortization to the repayment schedule to minimize debt servicing costs and to closely match the repayment terms of IFAD blended and highly concessional loans (a 25-year loan principal will amortize at a rate of 5 per cent per annum; and a 40-year loan principal will amortize at a rate of 3.3 per cent per annum).

(iv) **Interest.** CPLs will have fixed interest rates to be aligned with IFAD's concessional lending terms. IFAD's CPLs will be modelled along similar lines to those of IDA. They will have an all-in special drawing right (SDR) equivalent maximum interest rate of 1 per cent. The difference between the interest rate on the CPL and the maximum interest rate for the specific currency (if the CPL interest rate is higher than the maximum interest rate) will be covered by an additional grant payment from the Member State to IFAD. CPLs with variable interest rates will not be considered, as most of IFAD's concessional loans are on fixed rate terms.

(v) **Interest rate floor.** CPLs are subject to a 0 per cent interest rate floor.

(vi) **Prepayments.** In order to ensure IFAD's financial sustainability, IFAD may prepay the outstanding balance of the CPL, in whole or in part, without penalty.

(vii) **Currencies.** IFAD will primarily accept CPLs in special drawing rights, United States dollars and euros, matching the denomination currencies of IFAD's loans. Alternatively, CPLs in other SDR basket currencies (Japanese yen, British pound sterling and Chinese renminbi) or any other currencies may be considered, subject to IFAD's assessed ability to swap such loans into United States dollars or euros.

(viii) **Drawdown.** CPLs will be drawn down in no more than three equal instalments over a maximum period of three years to allow IFAD to manage liquidity. If agreed with the lender, Management may proceed with single-tranche drawdowns. Single-tranche drawdown will be required for CPLs that need to be swapped into United States dollars or euros.

(ix) **Minimum amount.** Only CPLs of US$20 million or greater will be considered.

(x) **Additionality.** Member States providing CPLs (directly or through a state-supported institution) will be expected to provide core contributions equal to at least 80 per cent of a minimum grant contribution benchmark and target a total grant equivalent contribution (which includes core contribution and the grant element of the CPL) to at least their minimum grant contribution benchmark. The minimum grant contribution benchmark will be equal to 100 per cent of the average core contribution in local currency of the preceding two replenishment periods (for IFAD13, it would be the average of IFAD11 and IFAD12 core contributions). An example is provided in table 1 below.

Table 1
Example of minimum core contribution and minimum total contribution for IFAD13
(Millions of United States dollars)

Country X		
IFAD 11	Core contribution	20
	Contribution in grant element of CPL	10
IFAD12	Core contribution	30
	Contribution in grant element of CPL	20
IFAD13	Minimum grant contribution benchmark (MGCB)	25
	Minimum core contribution (80% of MGCB)	20
	Total core contribution + grant element of CPL (100% of MGCB)	25

(xi) **Effectiveness.** A CPL agreement between IFAD and the CPL provider (i.e. a Member State or one of its state-supported institutions) will be entered into preferably no later than the last day of the six-month period following the adoption of the IFAD13 Resolution, but at any rate not until the relevant Member State has deposited an instrument of contribution for the amount of its core contribution required under the provisions of subparagraph (x) above. In cases where a Member State plans to provide an additional grant to lower the interest rate on the CPL, IFAD will require the payment of the additional grant as a prerequisite to accepting the loan disbursements from the CPL provider. This is to protect IFAD from paying high borrowing costs on the CPLs without receiving the related grant payments that ensure the required concessionality.

(xii) **Earmarking or restrictions on use of funds.** Since the primary purpose of CPLs is to finance IFAD's country programmes, in principle a lender may not restrict the use of the funds being lent to IFAD (e.g. in terms of beneficiaries, purpose, theme or geographic area). In limited cases, a thematic instrument with no earmarking to a specific subset of assets will be considered, provided the proposed theme is in line with IFAD's core mission and has strong linkages to overall loan portfolio (e.g. climate or private sector). CPL resources will be accessed through the relevant allocation mechanisms in IFAD, including, for sovereign lending, the PBAS for Member States borrowing on terms comparable to or harder than those applicable to the CPL, as appropriate, therefore covering the whole set of lending products offered by IFAD.

(xiii) **Grant element.** The grant element represents the present value of the financial benefit to IFAD of obtaining a CPL as opposed to a loan contracted on market terms. It is consequently the portion of the loan that is considered a grant for voting rights purposes to incentivize members to provide such loans to IFAD. In the event of an additional grant payment, such payment will be incorporated into the grant element of the CPL.

(xiv) **Voting rights.** The grant element of the CPL will entitle the Member State to voting rights under the same formula as applicable to replenishment contributions as stipulated in article 6, section 3(a)(ii) of the Agreement Establishing IFAD.

(xv) **Governance.** CPLs will be subject to the same authorization process as followed for other borrowing arrangements under the IBF.

B. Determination of the grant element

6. While the full nominal amount of the CPL represents the financial resource for the PoLG, IFAD will attribute voting rights to Member States providing CPLs in an amount proportionate to the grant element embedded in the loans. The grant element of the CPL is the ratio of the present value of the debt service to the present value of the loan disbursements. The calculation formula is the same as that applied for the IDA20 CPL framework, which is defined in the IDA20 Deputies' Report, as follows:

Where:

DFi = Discount factor at period i, calculated using the discount rate of the CPL Framework

CFSi = Cash flow from debt service at period i

DFj = Discount factor at period j, calculated using the discount rate of the CPL Framework CFDj = Cash flow from loan disbursement at period j.

C. Additional considerations

7. **Discount rate to calculate the grant element.** The discount rate calculation is important in that it determines the grant element, and therefore the allocation of votes for Members providing CPLs. For the IFAD13 CPLs, the method of calculating the discount rate used in determining the grant element will remain largely the same as the method approved for IFAD12, as described below.

8. **Net cost saving.** The methodology considers the possible savings compared to IFAD's borrowing transactions at market terms.

9. To determine the appropriate discount rate to use, the assumed borrowing cost for IFAD was based on the proxy of IFAD's funding cost, with the appropriate adjustments to consider the longer maturity of the CPL compared to the average maturity of IFAD's borrowing. For IFAD's borrowings not denominated in United States dollars, an appropriate cross currency swap was simulated to determine the average funding spread over the Secured Overnight Financing Rate (SOFR).

10. To convert the variable funding spread to a fixed interest rate funding cost, an interest rate swap was simulated, with the two proposed CPL maturities.

11. A similar calculation was performed for the other four currencies, where the funding rate in United States dollars was used as the starting point when determining the funding rates in other currencies (simulated using a two-year forward starting cross currency swap, which corresponds to the expected average time to disburse a CPL). The weighted averages of the five currencies were then calculated to determine the discount rates in SDR terms.

12. **Interest rate floor.** An interest rate floor will be required for Member States who contribute in currencies for which the equivalent of 1 per cent of SDR (maximum interest rate of the CPL Framework) is a negative rate. In this case, Member States would provide a loan at 0 per cent in a CPL currency (this 0 per cent interest rate could also be achieved through a combination of a higher interest rate loan with a supplemental grant). The 0 per cent floor means that the loan rate will be higher than the maximum 1 per cent SDR rate. Fair treatment across Member States will be ensured by using the 0 per cent interest rate of the CPL and additional grant payment when calculating the loan's total grant element, in order to determine voting rights and compliance with the minimum grant contribution.

13. **Additional grant payments.** In case an additional grant payment is required (either to meet the interest floor requirement or if the Member State wishes for an interest rate higher than the maximum interest rate), the amount will be calculated based on the present value of the difference in future cash flows calculated with the final interest rate and the maximum interest rate. The same discount rate in the CPL Framework will be used in the present value calculation. The Member State may effect the additional grant payment over several instalments provided the CPL has the same disbursement schedule and the present value of the additional grant payment is maintained.

Technical note on early encashment of replenishment contributions

1. The mechanism for early encashment of replenishment contributions was introduced in IFAD12.

2. Following the amendment of the Agreement Establishing IFAD in February 2021, the discount or credit generated by early encashment became eligible for the accrual of contribution votes.[78]

3. For IFAD13, the mechanism will remain unchanged, as described in this annex.

4. Generally, IFAD's Member States pay the full nominal amount of their replenishment contributions, as set forth in their pledge or an instrument of contribution, within three years. The schedule typically foresees the following instalments: year one: 30 per cent of full nominal; year two: 35 per cent of full nominal; year three: 35 per cent of full nominal amount.

5. Starting from the baseline of IFAD's standard encashment schedule, and in line with the practices of other IFIs, Member States will have the option to pay their pledge based on an accelerated encashment schedule.

6. The discounted amount is equal to the net present value (NPV) of such accelerated schedule calculated at a discount rate established for the replenishment cycle.

7. Considering the nature of core contributions (i.e. equity), and given that the proceeds of early encashment will be invested in the liquidity portfolio, the reference discount rate will be linked to the estimated liquidity portfolio investment return so as not to endanger IFAD's financial sustainability. Should the investment return be a negative rate, for the purpose of this exercise it will be assumed at zero and no discount will be generated for early encashment of contributions.

8. The IFAD13 discount rate for early encashment of contributions is set at 0.45 per cent per annum, which represents the estimated yearly investment return on IFAD's liquidity portfolio.[79]

9. Figure 1 presents an example of an early encashment where the Member State pays the amount of US$99.53 million, that is the NPV of the full nominal amount of the pledge of US$100.00 million. The full nominal amount of the core contribution will be counted towards the replenishment target, and voting rights will be attributed in relation to the full nominal amount (pledge or instrument of contribution) used in calculating the discount.

[78] Specifically, article 6, section 3(b) of the Agreement Establishing IFAD, as amended, states that "the grant element of a concessional partner loan and the discount or the credit generated from the early encashment of contributions shall be considered as "paid contributions" and contributions votes shall be distributed accordingly".
[79] Based on reported investment portfolio absolute return for 2022.

Figure 1
Early encashment mechanism and timeline based on a sample pledge of US$100 million and early encashment of NPV of US$99.53 million in one lump sum in year 1

	Year 1	Year 2	Year 3
Standard encashment schedule (SES)	30%	35%	35%
Payments based on SES	30 million	35 million	35 million
Accelerated encashment schedule (AES)	100%	Discount rate 0.53%	
Payment on AES (NPV)	99.45 million 30 million	35 million	35 million
Actual payment received	99.45 million		
Discount	0.55 million		
Amount considered for target and voting rights	100 million		
	Dec 22	Dec 23	Dec 24

10. Should the Member State pay more than the NPV of the standard encashment schedule, the Member State will accrue a credit against the difference (i.e. against the NPV gain). The credit will be allocated first towards the Member State's outstanding contribution arrears from previous replenishments, if any. If no contribution arrears are attributable to the Member State, such amount will be allocated as an additional core contribution towards the current replenishment target, and voting rights will be attributed in relation to such credit.

11. Figure 2 presents an example of an early encashment and a credit. The NPV would have been US$99.53 million but the Member State pays US$100.00 million. This generates a credit of US$0.47 million.

Figure 2
Early encashment mechanism and timeline based on a sample pledge of US$100 million and early encashment of US$100 million in one lump sum in year 1

	Year 1	Year 2	Year 3
Standard encashment schedule (SES)	30%	35%	35%
Payments based on SES	30 million	35 million	35 million
Accelerated encashment schedule (AES)	100%	Discount 0.53%	
Payment on AES (NPV)	99.45 million 30 million	35 million	35 million
Actual payment received	100 million		
Credit	0.55 million		
Amount considered for target and voting rights	100.55 million		
	Dec 22	Dec 23	Dec 24

12. The reference discount rate will apply to all IFAD13 contributions equal to or above the floor of US$10 million that are encashed in accordance with the requirements of this technical note. This floor is introduced in recognition of the very low discount that would result from lower contribution amounts and the high transaction costs for both IFAD and the Member States independently of the contribution amount.

13. The schedule of encashment of contributions has implications for IFAD's liquidity and resource base. Therefore, Member States wishing to avail themselves of the early encashment option must communicate the exact accelerated schedule when pledging or, at the latest, when depositing the instrument of contribution. Deposits of promissory notes or letters of credit will not generate a discount.

Additional climate contributions

[Placeholder - Annex to be issued as addendum in advance of the second session]