IFAD
Investing in rural people

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Addendum

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This is an updated version of the note on IFAD13 additional climate contributions published for the second session of the IFAD13 Consultation (IFAD13/2/R.2/Add.2). Member States are invited to provide comments online, through the Member States Interactive Platform, by 8 September.

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IFAD13 additional climate contributions

Note to delegates

This updated version of the document is based on feedback received at the second session of the Consultation on the Thirteenth Replenishment of IFAD's Resources (IFAD13 Consultation). The following main changes have been made:

(i) **Benefits for countries across different income categories.** Management has provided additional clarification on how countries across different income categories, including upper-middle-income countries, stand to benefit from the positive impact of additional climate contributions (ACCs) on resources available for programming. All countries would benefit from the increased climate finance via ACCs, including those countries accessing ACC-financed climate top-ups via the performance-based allocation system, and those accessing increased Borrowed Resource Access Mechanism (BRAM) resources due to increased IFAD borrowing capacity.

(ii) **Lending terms.** Each country is to retain its regular lending terms (including countries eligible for grant financing). Additional information has been added to emphasize that in almost all cases the most climate-vulnerable countries will benefit from climate top-ups on grant or highly concessional terms.

(iii) **Share of climate finance.** Management has clarified that the target share of climate finance in the IFAD programme of loans and grants will be raised to 45 per cent regardless of the level of ACCs (i.e. even in the event that no ACCs are received).

(iv) **Climate finance reporting.** Additional clarifications have been added with regard to climate finance reporting related to ACCs, and to IFAD's climate finance more broadly.

(v) **Voting rights.** Management has included updated proposals regarding ACC voting rights and seeks Member States' feedback on whether to provide ACC voting rights: (i) at a level equal to core contributions, or (ii) at a rate of 50 per cent of the voting rights of core contributions. The latter would mean that ACCs receive 50 votes per US$158 million in ACC contributions, while core contributions generate 100 votes per US$158 million in core contributions. Given IFAD's membership voting structure, the latter means that a 50 per cent voting rate for ACCs would be similar in outcome for contributors to the 20 per cent voting rights granted for contributions to the African Development Fund's Climate Action Window.

(vi) **Substitution risk.** The additionality rule has been adjusted to require a contribution equal to at least 100 per cent of the most recent core contribution, in nominal terms, in the currency in which the contribution was made, in order for Member States to benefit from the voting rights for their ACCs.

(vii) **ACC target for IFAD13.** The threshold to establish the ACC instrument has been removed while maintaining a target of at least US$100 million in IFAD13. This is to provide certainty that the instrument will be established once approved by the Governing Council as part of the IFAD13 Resolution. Considering that this is a new instrument, it should not be expected to immediately generate game-changing levels of contributions. Rather, it is hoped that over future replenishment cycles it will become a popular channel for providing additional climate resources. Even in the case that lower levels of funding are received in IFAD13, Management believes it is worthwhile to create the instrument as the benefits for borrowing Member States will quickly outweigh the limited additional transaction costs for IFAD given that ACCs would be fully integrated into normal business processes. For this reason, the proposed minimum PBAS allocation has also been removed from this note, taking into consideration that the majority of climate finance Member States receive from IFAD will be through the share of their regular PBAS allocation used for climate-related activities, to which the climate top-up would be additional.[1]

[1] For example, if a country receives a PBAS allocation of US$20 million, on average approximately 45 per cent (US$9 million) would be used for climate-related activities. In IFAD13, any ACC-financed climate top-up is expected to be significantly smaller than this, so the minimum ACC allocation is not necessary.

I. Introduction

1. Addressing climate change is central to the future of agriculture and food systems, and therefore to IFAD's mandate. Climate change is a key factor in the erosion of gains made in ending food insecurity and poverty. Poor rural people and small-scale producers in developing countries are among the most vulnerable to climate change and its impacts, and yet are the most underserved by global climate finance: only about 1.7 per cent of the money invested globally in climate finance is targeted to small-scale producers, possibly even less.[2] This hampers smallholders' ability to make the necessary investments to reduce their vulnerability to climate change. Failure to substantially scale up climate finance targeted to the small-scale agriculture sector will have grave consequences, undermining the international community's efforts to achieve global food security and to deliver on many of the Sustainable Development Goals, the Paris Agreement and global biodiversity goals. This will bring attendant risks of increased forced migration, instability and conflict.

2. IFAD has developed a strong comparative advantage as a leader at the intersection of climate and smallholder agriculture, particularly regarding adaptation, which accounts for over 90 per cent of IFAD's climate finance.[3] IFAD's climate work also yields significant biodiversity co-benefits, positioning IFAD to play a role in protecting, restoring and promoting biodiversity and its sustainable use in rural systems.

3. The Thirteenth Replenishment of IFAD's Resources (IFAD13) is an opportunity to significantly expand IFAD's role as an assembler of climate and biodiversity finance for the small-scale agriculture sector. To achieve this, IFAD proposes to enhance integration of climate and biodiversity finance into its financial architecture and programme of loans and grants (PoLG). This would be realized through the establishment of additional climate contributions (ACCs) as a new form of additional contributions to the Fund's core resources. ACCs will complement IFAD's existing climate finance toolkit, with a distinct purpose and value proposition that increases climate finance for the poorest countries – including those eligible for grants – as well as other borrowers, and complements the resources channelled through the enhanced Adaptation for Smallholder Agriculture Programme (ASAP+) and the funds IFAD manages on behalf of partners like the Global Environment Facility (GEF) and the Green Climate Fund (GCF). As many of the most climate-vulnerable countries are eligible for grant financing or super highly concessional/highly concessional loans, ACCs would increase the climate finance they can access on these terms.

II. Main features of ACCs

4. **Purpose.** ACCs are proposed as an additional component of IFAD's core financing to increase the mobilization and effective management of climate finance with a view to fostering improved impact on smallholder climate adaptation and mitigation. They are intended as an additional core contribution option for IFAD13 that: (i) further integrates climate-related activities within IFAD's project design and project implementation from the outset, maximizing efficiency and impact while minimizing transaction costs for borrowers, donors and IFAD; (ii) maximizes the benefits of IFAD's unique financial architecture, increasing both the PoLG and the total volume of climate finance that IFAD catalyses with its multiplier effect; and (iii) gives Member States the option to contribute additional, climate dedicated

[2] Examining the climate finance gap for small-scale agriculture (November 2020). Available at: https://www.climatepolicyinitiative.org/publication/climate-finance-small-scale-agriculture/. In 2019–2020 that share is likely to have fallen to about 1 per cent (internal calculations).

[3] Compared to other multilateral development banks (MDBs), for which adaptation finance accounted for just 35 per cent of total climate finance in 2021. See Joint Report on Multilateral Development Banks' Climate Finance 2021.

contributions as replenishment contributions, received and programmed efficiently up front.

5. **Impact on resources available for programming.** ACCs will increase available resources for all borrowing countries. Low-income countries (LICs) and lower-middle-income countries (LMICs), as well as eligible small island developing states (SIDS)[4] would benefit from PBAS "climate top-ups" directly financed by the ACCs, in an amount proportional to the total amount of ACCs received. Countries borrowing through the Borrowed Resource Access Mechanism (BRAM), including upper-middle-income countries, would also benefit since ACCs will form part of IFAD's equity that can be leveraged, in accordance with IFAD's Capital Adequacy Policy, to increase the borrowed resources made available through the BRAM.

6. **PBAS allocation approach.** The allocation of climate top-ups to eligible countries would take place ahead of the implementation of the IFAD13 cycle, aligned with the timing and approach of performance-based allocation system (PBAS) allocations. They would be used solely for climate finance-eligible activities. Allocations would be submitted to the Executive Board for information, as is the case for PBAS allocations. Should any country not make full use of their climate top-up, it could be reallocated to other eligible countries without affecting their normal PBAS allocation, thus introducing a demand-driven element to this portion of IFAD's core climate resources. Similarly, countries accessing BRAM rather than PBAS would benefit from increased financing due to IFAD's increased borrowing capacity created by the ACC.

7. **Financing terms and conditions.** It is proposed that climate top-ups be made available to countries on the same lending terms and financing conditions applicable to the other resources they receive through the PBAS, including for countries eligible for grant financing under the Debt Sustainability Framework. Many of the most climate-vulnerable countries are also affected by debt distress and would therefore benefit from 100 per cent grant financing.[5] Eventual reflows would be considered part of IFAD's normal core resources. The increase in BRAM financing would be subject to the normal BRAM financing terms and conditions of the country.

8. **Activities to be financed.** Climate top-ups would be used for activities that directly contribute to climate adaptation and/or climate mitigation, with co-benefits of restoring and promoting biodiversity; and that are eligible to be reported as 100 per cent climate finance according to the MDB methodologies. This would include the same range of activities as those currently funded through IFAD's PoLG and accounted for as climate finance. As such, it is envisaged that ACCs would primarily finance adaptation-related activities, as this is Member States' main area of demand for IFAD support. IFAD's action during the IFAD13 period on climate, environment and biodiversity will be driven by a new consolidated strategy and action plan (2025–2030).

9. **Increasing design, supervision and implementation efficiency.** Climate top-ups will be part of a country's available resources, alongside its regular PBAS allocation, for the development of new operations or additional financing during IFAD13. Climate top-ups would therefore be fully integrated into the project design and review process, ensuring that climate activities are fully embedded in the project logic at the start, thus enabling improved design and greater impact. This

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[4] As per the current Policies and Criteria for IFAD Financing, special provisions are in place for small states and countries with fragile situations that allow them to access IFAD's concessional resources.

[5] Of the 20 most climate-vulnerable countries (according to the University of Notre Dame Global Adaptation Initiative [ND-GAIN]) that received PBAS allocations in IFAD12, 10 received 100 per cent grant financing, 5 received super highly concessional terms, 3 highly concessional and 2 blend terms. South Sudan did not have a ND-GAIN score but also received 100 per cent grant financing. ND-GAIN is a widely used index that measures a country's exposure, sensitivity and capacity to adapt to the negative effects of climate change. It is developed by ND-GAIN (https://gain.nd.edu/our-work/country-index/).

also minimizes transaction costs that otherwise occur when supplementary climate funds are mobilized from non-IFAD sources, or added at later stages to ongoing projects. Operations that include climate top-ups would benefit from IFAD's normal supervision and implementation support.

10. **Reporting.** As ACCs would be part of IFAD’s core resources, results would be reported against the IFAD13 Results Management Framework (RMF) and future RMFs, and integrated into the Report on IFAD’s Development Effectiveness (RIDE) and the Report on IFAD's Mainstreaming Effectiveness (RIME). An update on implementation of the ACCs would be provided during IFAD13. IFAD’s Climate Action Report would also include reporting on ACCs as it covers all of IFAD’s climate-related activities and could be adapted to incorporate new mechanisms. Climate finance tracking would be undertaken using the MDB methodologies.

11. **Impact on the share of climate finance in the PoLG.** It is proposed that the climate finance target for IFAD13 be increased from 40 to 45 per cent of the IFAD PoLG for IFAD13, regardless of the level of ACCs mobilized. ACCs would be used to finance activities that are classified as 100 per cent climate finance.

12. **Climate finance reporting.** IFAD reports its climate finance commitments to the Organisation for Economic Co-operation and Development (OECD) using the MDB methodologies. When reporting on their climate contributions, contributors using the MDB methodology should be able to report 100 per cent of the value of their ACC contribution as climate finance. IFAD recognizes that some Member States prefer to use the Rio Markers Methodology for their own climate finance reporting. IFAD will therefore explore additional reporting on the share of climate finance in the PoLG based on the Rio Markers Methodology.

13. **Governance aspects:**

    (i) **Voting rights.** The Consultation noted that ACCs would be eligible for voting rights because: (i) they would be established as a new subcategory of additional contributions to the Fund, as with core contributions; (ii) they would be provided on the standard lending terms for which recipient countries are eligible; and (iii) reflows would become part of IFAD’s core resources. Current forms of additional contribution to IFAD include core contributions, the grant element of concessional partner loans (CPLs) and the discount or credit resulting from early encashment.

    With regard to the number of votes to be created for ACCs, Member States are requested to provide feedback on the following options:

    (a) **Option 1:** ACCs receive voting rights at the same rate as regular core contributions (100 votes per US$158 million of contributions); or

    (b) **Option 2:** ACCs receive voting rights at **half** the rate of regular core contributions (50 votes per US$158 million of contributions). The formula for the creation of voting rights can be modified by decision of the Governing Council with a two-thirds majority. This would be included in the IFAD13 Resolution without the requirement to amend the Agreement Establishing IFAD. In all other respects, voting rights would be determined according to the standard formula provided in article 6.3(a)(ii) of the Agreement Establishing IFAD. It should be noted that contributors only receive 57 per cent of the votes created as a result of their contributions. The rest are distributed equally between all Member States as membership votes. This means that a 50 per cent rate for ACCs would be similar in outcome to the 20 per cent voting rights granted for contributions to the African Development Fund’s Climate Action Window.

Voting rights would be allocated to the contributing Member State according to the formula agreed upon payment of their ACCs.

Granting voting rights to ACCs would not create a significant number of new votes compared to the current aggregate, and would not materially affect the balance between Member States or unduly benefit certain Members in terms of powers. In accordance with the provisions of the Agreement, 43 per cent of any new votes would be membership votes distributed to all Members equally, and 57 per cent would be distributed to ACC contributing countries upon receipt of payments. This division of votes would ensure that List C countries receive no less than one third of all the total votes created as membership votes, in accordance with article 6.3(a)(iii) of the Agreement Establishing IFAD.

(ii) **Substitution risk.** To mitigate the risk of substitution between ACCs and Member States' core replenishment contributions, Member States would be expected to make a core pledge for IFAD13 in an amount equivalent to at least 100 per cent of their most recent core contribution in nominal terms, in the currency in which the contribution was made in order to benefit from the voting rights for their ACCs. This arrangement ensures that substitution risk at the level of individual Member States is avoided. Member States unable to make a core pledge to IFAD13 in an amount equivalent to at least 100 per cent of their contribution to the previous replenishment may contribute ACCs but will not access the corresponding voting rights.

(iii) **Linkage to replenishment target.** ACCs would be included in the overall replenishment target. However, clear separate targets would be set out in the financial framework for core contributions, ACCs and CPLs as each plays a distinct role in the overall financing of IFAD's PoLG.

(iv) **Approval of financing.** Governance of ACCs and approval of loans or grants financed by climate top-ups would be the same as for other IFAD-financed operations, and would fall under the responsibility of the Executive Board.

(v) **Contributions by non-Member State partners.** Non-Member States or other partners could provide a special contribution to be used in accordance with the ACC mechanism, in line with previous practice and the applicable legal framework for special contributions. They would receive no voting rights, would not be part of the replenishment target, would not be able to apply any conditions on the use of funds, and would have no role in the governance of the funds.

14. **Relationship to ASAP+ and other climate funds.** Given their fuller integration into IFAD's financial architecture, ACCs would provide a valuable additional means of mobilizing additional climate financing from Member States, in addition to core contributions. However, ASAP+ remains an important instrument for IFAD and would continue to be used as a trust fund for climate-related supplementary funds to be provided by Members and any other sources, with greater flexibility on how funds are used in order to respond to specific earmarking requirements of contributors, though always without the possibility of voting rights for contributing Members. ASAP+ also provides an instrument to undertake more innovative activities, with a wider range of partners, that can generate lessons and best practice that can be blended and scaled up using PoLG financing, including ACCs. In addition, IFAD will continue to mobilize funds from GCF, GEF and other sources of climate funding. While IFAD would continue seeking to mobilize these supplementary funds for climate, they are less predictable than core resources. While these supplementary funds may be secured for many country programmes and integrated into overall project/programme financing as appropriate in agreement with the borrower, there are often challenges in aligning the timing of approval of these different funding sources. ACCs, being fully embedded in IFAD's

normal business processes, would increase the financing available up front for all eligible country programmes.

Table 1
ACCs combine key features of core contributions and ASAP+

Type of contribution	*Eligible as 100% climate finance*	*Eligible for voting rights*	*Increases IFAD capital and borrowing capacity*	*Distribution of resources using PBAS approach*
ACC	**Yes**	**Yes**	**Yes**	**Yes**
Core	No	Yes	Yes	Yes
ASAP+	Yes	No	No	No

III. Summary of key benefits and value addition of ACCs

15. ACCs build on and complement IFAD's overall climate finance toolkit, as well as funding instruments available across the broader climate finance landscape. ACCs alone are not a panacea, but they would bring a specific set of benefits and value addition for recipients, contributors and IFAD itself, when delivered as part of IFAD's country programmatic approach, and could help reduce fragmentation and strengthen integration of climate finance in IFAD's financial architecture.

16. **For recipients.** Through ACCs, PBAS-eligible countries will benefit from increased availability of concessional climate finance, including grants, in a more predictable manner than funding mobilized as supplementary funds, and with full integration with IFAD's regular investment financing and country programme for improved efficient and effectiveness. ACCs also introduce a more demand-driven approach to boosting climate finance in the PoLG, compared to requiring recipients to use a further increased share of their regular PBAS allocations for climate-related investments, the latter of which can reduce IFAD's flexibility and ability to be demand-driven. Furthermore, the PBAS approach, which includes the IFAD Vulnerability Index,[6] will ensure that countries with the greatest needs and highest vulnerability – and which often contribute least to the climate crisis – receive a share of additional climate resources,[7] with many of the most vulnerable countries benefiting from 100 per cent grant financing. BRAM borrowers will also benefit from IFAD's ability to leverage the increased equity resulting from ACCs to increase borrowed resources available through the BRAM. ACCs therefore provide a win-win solution for all borrowing countries to benefit from increased IFAD financing.

17. **For contributors.** ACCs can be an efficient channel to provide additional targeted climate finance to support adaptation and mitigation in the small-scale agriculture sector, with co-benefits for biodiversity.[8] They benefit from IFAD's strong financial, organizational and programme delivery capacity, as well as results and impact monitoring systems. The resources would be directly focused, like all IFAD's core resources, on LICs, LMICs and eligible SIDS so they are an efficient means of increasing investments to address climate and biodiversity challenges in the poorest countries, including those affected by debt distress. ACCs would also support IFAD's universality: their integration into IFAD's financial architecture means that they contribute to IFAD's capital and enable increased lending through

[6] https://webapps.ifad.org/members/wgpbas/docs/IFADs-performance-based-allocation-system-Frequently-asked-questions-e.pdf.
[7] A recent report by the Center for Global Development found that "There is no overlap between the top ten most climate vulnerable countries and the top recipients of CIF and GCF adaptation finance. Six of the ten most vulnerable IDA countries have not received any adaptation from the CIF or GCF. The other four countries received a cumulative $118.01 million in adaptation finance, 5.3 per cent of the total where it is possible to disaggregate by country." https://www.cgdev.org/sites/default/files/concessional-climate-finance-mdb-architecture-working.pdf.
[8] These biodiversity benefits include ecosystem restoration, afforestation, diversification, and integration of sectors (various crops and animals) in farming systems, community rangeland/pasture and forest management and seed systems.

the BRAM. ACCs therefore support IFAD's overall financial strength and ability to deliver on its broader universal mandate, and would also provide voting rights.

18. **For IFAD.** From an organizational perspective: (i) up-front allocation of ACCs as additional climate finance, alongside PBAS country allocations, provides greater predictability. This enables a more strategic approach to the planning of resources, incentivizes higher levels of climate ambition in IFAD's country programmes and allows full integration with regular business processes, increasing efficiency for IFAD and its partners; (ii) by ensuring they are used for 100 per cent climate finance-eligible activities, ACCs can help IFAD access additional sources of core funding from Member States (and other partners) that might not previously have been available for core contributions. When combined with clear additionality criteria to minimize substitution risk, this can help diversify IFAD's financing and increase overall funding for all borrowing Member States; and (iii) by integrating climate finance into IFAD's core resources, IFAD is able to ensure that this growing source of finance, which is fully aligned with IFAD's mandate, makes better use of IFAD's financial capabilities as an international financial institution compared to traditional climate supplementary funds. In particular, ACCs would immediately contribute to increasing IFAD's capital base, reducing the debt-equity ratio and providing increased potential for borrowing. Over the longer term, reflows of ACCs would have a positive effect on IFAD's liquidity and core resource commitment capacity. Additionally, the same cofinancing target would apply to ACCs as to the rest of IFAD's PoLG, leading to increased expected cofinancing.