Investing in rural people

Consultation on the Thirteenth Replenishment of IFAD's Resources
Third Session
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Report of the Consultation on the Thirteenth Replenishment of IFAD's Resources: Building Rural Resilience for a Food-Secure Future

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This is an updated draft of the Report of the Consultation on the Thirteenth Replenishment of IFAD's Resources (IFAD13), which has been developed based on comments received during the e-consultation period on the draft report held from 18-29 September 2023. Further information on this draft is provided on page ii.

Useful references: IFAD at the midterm of the Twelfth Replenishment (IFAD13/1/R.2/Rev.1); IFAD13 Directions (IFAD13/1/R.6/Rev.1); IFAD13 Business Model and Financial Framework (IFAD13/2/R.2).

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A note on the Draft Report

This updated Draft Report of the Consultation on the Thirteenth Replenishment of IFAD's Resources (IFAD13) provides a summary of the papers, presentations and discussions of the IFAD13 Consultation. This updated draft has been prepared based on comments received from the e-consultation on the initial draft report held between 18 and 29 September 2023. Other minor changes have been made to improve clarity of the report. Changes introduced to the report are marked in track changes in this version of the document.

This version also includes: (i) an updated annex on additional climate contributions, incorporating feedback received on the version published online for comments after the second session; (ii) an updated version of the concessional partner loan (CPL) annex of the Business Model and Financial Framework paper, including the IFAD13 CPL discount rates; and (iii) the official exchange rates for IFAD13. Calculation of both the CPL discount rates and the IFAD13 exchange rates requires data as of 30 September.

Should further changes be required after the third session, these will be included in a final version of the report to be presented for approval at the fourth session on 14 and 15 December.

Executive summary

1. The Thirteenth Replenishment of IFAD's Resources (IFAD13) comes at a critical moment. The world is on the brink of global emergency and the likelihood of achieving the Sustainable Development Goals (SDGs) by 2030 is rapidly receding. Hunger and poverty are at unacceptable levels and the impacts of climate change are increasingly catastrophic. Forced migration, instability and conflict are growing, especially in already vulnerable areas. Poor rural communities and small-scale producers in developing countries are among the most severely hit by these crises, but they have a key role to play in building a resilient future. To achieve the SDGs and to transform rural areas and food systems, investment in rural people must be scaled up significantly.

2. The members of the IFAD13 Consultation met during 2023 to agree on priorities and targets for the IFAD13 period (2025-2027). Given the global context, delegates agreed on the need to invest in ambitious and lasting solutions to respond to the current crisis and build rural people's resilience for a food-secure future for all. [Delegates supported IFAD's call for US$2 billion in new financing to support a programme of work (PoW) of at least US$10 billion and encouraged all IFAD Member States to provide strong support to the IFAD13 Consultation process. Achieving these targets will enable IFAD to work towards doubling its impact by 2030 and improving the incomes, production, food security and nutrition, and resilience of over 100 million people.] Delegates endorsed the IFAD13 Report, and the key messages contained in this executive summary.

Rural people at the centre

3. Nearly half of the global population lives in the rural areas of developing countries. These areas, where hunger and poverty are more entrenched, are home to over 80 per cent of the world's extreme poor.[1] Rural people and small-scale producers are more affected by climate change and conflict and more likely to be excluded from access to finance. They are more vulnerable to shocks, instability and forced migration.[2] This is especially true for the marginalized: over half of food-insecure households in rural areas are headed by women;[3] rural areas are home to approximately 500 million youth[4] and many of the world's over 470 million Indigenous Peoples.[5]

4. These rural people are small-scale producers who depend on small farms and local markets for their incomes and sustenance. They are critical to local food security and nutrition, reducing poverty and ensuring stability, and contribute significantly to feeding the world. They produce up to 70 per cent of food consumed in low- and middle-income countries.[6]

5. Dramatically scaling up inclusive, sustainable investments in agriculture would be transformative, and would help get the SDGs back on track. Investing in agriculture is two to three times more effective at reducing poverty than other sectors.[7] With such investments, production increases, diversifies and adapts to a changing climate. More and better food becomes available, and the incomes of all

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[1] IFAD, Rural Development Report: Transforming Food Systems for Rural Prosperity, 2021.
[2] United Nations, Sustainable Development Goals Report 2022.
[3] Data from IFAD impact assessments undertaken between 2019 and 2021.
[4] IFAD, Rural Development Report: Creating Opportunities for Rural Youth, 2019.
[5] International Labour Organization, 2019. Implementing the ILO Indigenous and Tribal Peoples Convention No. 169: Towards an inclusive, sustainable and just future.
[6] See footnote 1.
[7] See Luc Christiaensen, Lionel Demery and Jesper Kuhl, "The (evolving) role of agriculture in poverty reduction—An empirical perspective", Journal of Development Economics, Volume 96, Issue 2, 2011, Pages 239-254, ISSN 0304-3878, https://doi.org/10.1016/j.jdeveco.2010.10.006.

those along the value chain improve. With improved food security and livelihood options, instability and the pressure to migrate decrease, while climate resilience goes up. This is why rural resilience is a game-changer for hunger, poverty and climate.

Now is the time to act

6. Despite this potential, underinvestment in rural people and producers has persisted for decades. Official development assistance to agriculture is stagnant at a level far below what is needed,[8] and climate finance directed to small-scale agriculture is barely at 2 per cent of the total.[9] The consequences are becoming dire.

7. Over 780 million people in the world suffered from hunger in 2022 and, since just 2021, the number of people facing acute food insecurity has increased by 34 per cent. In Africa, about 20 per cent of the population faces hunger. Numbers like this are made worse by the global impacts of the war in Ukraine, the slow COVID-19 recovery, persistent inequalities and increasingly severe impacts of climate change. With current trends, in 2030 it is likely that 575 million people will still be living in extreme poverty and 670 million will still be facing hunger.[10] Projections on climate are equally alarming. Before 2030, the global temperature rise is predicted to reach the critical 1.5-degree threshold, which will have severe and irreversible impacts on food production and access.[11]

8. To address this, between US$300 billion and US$400 billion is needed annually until 2030 to transform food systems.[12] Public debt, poor economic growth and increasing fiscal pressures make these numbers hard to realize in many developing countries.[13] Nevertheless, financing for emergency response in the face of recurring crises must be balanced with investments in medium- and longer-term solutions, because one dollar invested in resilience today can save up to US$10 in emergency aid in the future.[14] This is especially important in fragile contexts and situations vulnerable to regular economic or climate shocks, conflicts and natural disasters.[15]

IFAD delivers solutions

9. IFAD was established in the aftermath of the global food and energy crises of the 1970s, with the mission to address the root causes of poverty and food insecurity. IFAD invests in rural people, improving food production, food systems and nutritional levels in the poorest communities. This builds resilience, protects the planet, and creates livelihoods for a new and better tomorrow.

10. IFAD is central to financing rural development. One hundred per cent of IFAD financing is invested in rural food systems and the most vulnerable rural people. It is the only United Nations specialized agency and international financial institution (IFI) exclusively dedicated to transforming agriculture and rural economies. Importantly, IFAD holds a distinct position as the world’s second largest multilateral investor in food and agriculture. It reaches tens of millions of rural people through a PoW of over US$20 billion, bringing together IFAD financing with cofinancing. Over 50 per cent of its activities are in Africa.

11. IFAD equals efficient use of resources. Since 1977, it has converted every dollar of core contributions from Member States into six dollars of investment in rural areas.

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[8] See United Nations Conference on Trade and Development, and the Donor Tracker.
[9] IFAD, Climate finance to strengthen food systems: An opportunity for IFAD (document EB 2022/137/R.2).
[10] SDG Progress Report 2023 and State of Food State of Food Security and Nutrition in the World (SOFI) 2023.
[11] See the Conversation.
[12] World Bank, Food Finance Architecture: Financing A Healthy, Equitable & Sustainable Food System, Sep 2021.
[13] Ibid.
[14] The Global Commission on Adaptation in 2019: Adapt now: A global call for leadership on climate resilience.
[15] Paul Corral et al., 2020. Fragility and Conflict: On the Front Lines of the Fight against Poverty (Washington, D.C.: World Bank).

Its AA+ credit rating means that it can implement innovative funding models, bring in the private sector and crowd in otherwise untapped finance. Apart from the World Bank Group, IFAD is the only United Nations agency to operate on capital markets, highlighting the significance of the issuance of IFAD's largest private placement in June 2023.

12. IFAD is effective. External assessments recognize IFAD's organizational capacity. The Center for Global Development's Quality of Official Development Assistance assessment[16] ranked IFAD as the most effective and efficient multilateral development organization globally in 2021. During the IFAD11 period alone, IFAD-financed operations led to over 77 million rural people increasing their incomes, 64 million increasing market access, and 38 million increasing resilience. Its impact and results are widely recognized, including recently at the Summit for a New Global Financing Pact in Paris[17] and the G7 Hiroshima Action Statement.[18]

13. At the heart of IFAD's success is its people-centred approach. IFAD invests in rural people, partnering with small-scale producers, women, youth, Indigenous Peoples and other marginalized communities. It builds strong trust with communities, governments, and international partners – including working closely with other multilateral development banks (MDBs) and United Nations agencies. The trust that developing Member States place in IFAD is evident: almost 90 List C countries contributed voluntarily to its last replenishment.

Changing 100 million lives

14. Without significant change in how finance is directed, the global outlook on poverty, hunger and climate is grim. Solutions exist, but they require scaled-up financing. Increased Member State contributions are the cornerstone of IFAD's ability to lead in transforming local food systems and investing in rural people's resilience. For IFAD13, IFAD is calling on its Member States to take this step.

15. IFAD13 will aim to deliver a PoW of at least US$10 billion and generate a significant impact for over 100 million poor rural people. This can be achieved with US$2 billion in new replenishment financing (including core contributions, additional climate contributions and concessional partner loans from Member States), enabling IFAD to deliver nearly US$4 billion in new IFAD financing, and mobilize a further US$6 billion in domestic and international cofinancing – a strong return on investment for Member States.

16. This is an ambitious response to calls for MDBs and IFIs to take action focused on providing more concessional resources to the poorest and most debt-distressed countries. IFAD will ensure that Members' contributions reach the poorest countries by making 45 per cent of core resources available to low-income countries (LICs).

17. This level of ambition will ensure that IFAD can do more of what it does best: assembling and deploying investment to rural people and small-scale producers to equip them with the tools to transform local food systems for sustainable change, leveraging its own financing, knowledge and partnerships. It would prioritize key challenges and opportunities to deliver on its mandate and role as a development organization. The IFAD13 business model aims to deliver on IFAD's core mandate – including empowering rural communities, especially women and youth, focusing on the last mile and those most at risk of being left behind, and improving food security and nutrition – while strengthening its work in three priority areas: fragility, climate change and biodiversity, and leveraging the private sector to deliver on the SDGs. Priority actions in these areas are summarized below.

[16] Center for Global Development, 2021. The Quality of Official Development Assistance.
[17] Joint statement by France and IFAD.
[18] Hiroshima Action Statement for Resilient Global Food Security.

Building resilience in fragile contexts

18. The world is becoming increasingly fragile, and ways must be found to counteract instability, conflict and displacement with a focus on local resilience. Through targeted interventions, IFAD empowers rural communities in remote and fragile areas, creating sustainable livelihoods and pathways for economic growth. Working with local communities and reinforcing rural institutions, IFAD tackles the root causes of fragility and nurtures local ownership. The heart of IFAD's strategy lies in adopting flexible programming in fragile environments, offering tailored support to rural communities. In IFAD13, IFAD will increase the share of core resources dedicated to fragile situations[19] from 25 per cent to at least 30 per cent and prioritize mobilization of additional grant-based supplementary financing for these situations, including small island developing states.

19. IFAD13 will also include strengthening strategic partnerships with humanitarian and United Nations peacebuilding organizations and IFIs, more flexible programming, increased operational support (including digital tools), and more in-depth assessments to understand fragility's dimensions in each situation.

Prioritizing climate-resilient agriculture and biodiversity

20. Solutions to hunger and poverty must address a rapidly changing climate and biodiversity loss. IFAD13 will intensify support to climate-resilient agriculture, environmental sustainability and biodiversity management. This will lead to increased resilience of small-scale producers and rural communities, and their local food systems. IFAD will achieve this by increasing its target budget for tracked climate activities in IFAD-financed programmes from 40 per cent in IFAD12 to at least 45 per cent in IFAD13.[20] This will expand IFAD's leading work on climate adaptation and the scaling up of technical and financial innovations tailor-made for rural economies, supported by a new integrated climate, environment and biodiversity strategy.

21. In IFAD13, IFAD will also launch additional climate contributions (ACCs), as a new form of voluntary additional contribution to the Fund, to boost predictability and ex ante integration of climate finance within IFAD's regular programmes. ACCs will help to deliver more ambitious and predictable climate finance to rural areas and increase highly concessional climate finance for LICs, while being fully integrated with IFAD's broader lending programme where climate is fully mainstreamed. The enhanced Adaptation for Smallholder Agriculture Programme (ASAP+) will continue as an integral part of IFAD's climate financing offer, providing a flexible mechanism to deliver targeted climate funding, promote innovation and leverage synergies with IFAD's core climate financing.

Engaging the private sector to empower small-scale farmers

22. The domestic and international private sector is an integral part of closing the SDG financing gap. For small-scale farmers, private sector investment is a lifeline, providing access to capital, employment opportunities, technology and markets. In IFAD13, IFAD will update its private sector strategy and establish a new funding model for the Private Sector Financing Programme (PSFP). Using its own balance sheet, IFAD will be able to catalyse and mobilize additional private investments and financial services to underserved rural areas. Non-sovereign operations will be more closely integrated with IFAD's sovereign investments to create new ways to mobilize domestic and international private sector investments directed at rural people. By de-risking investments and creating an enabling environment, IFAD will

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[19] This will be measured against the World Bank's Fragile and Conflict Affected Situations (FCS) list. See 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 German Agency for International Cooperation, 2021.

[20] Based on the MDB methodologies. Using the Rio Markers, the share of climate finance in IFAD programmes is significantly higher.

be able to foster more public-private partnerships with agrifood businesses and entrepreneurs.

IFAD13: A new day

23. IFAD13 is an opportunity for IFAD to lead in ensuring that the international financial system delivers rural resilience and a food-secure future.

24. Leveraging this strong platform, and building on the ongoing global PoW, a strong IFAD13 replenishment could translate into over 100 million rural women, men, youth and marginalized groups with better incomes and jobs. It means more food produced, processed and reaching markets locally, in ways that protect the planet, with over 80 million rural people benefiting from increased productivity and market access. It means that around 50 million rural people become more resilient to environmental, economic and social shocks. Investing in rural people today, through effective channels like IFAD, is the path to a new and better tomorrow for the years to come.

Table 1
Summary of key IFAD13 commitments and targets

Theme/area	*IFAD13 commitments and targets*
Impact[21]	103 million people with increased income
	83 million people with increased production
	86 million people with increased market access
	51 million people with greater resilience
	5 million people with improved nutrition
	78 million people with improved food security
	61 million people in households with improved women's empowerment
Operations	Ensure that at least 10 new projects include Indigenous Peoples as a priority target group and at least five new projects include persons with disabilities as a priority target group
	Ensure that 35% of IFAD13 sovereign projects intend to achieve gender equality and women's empowerment; 60% of IFAD13 sovereign projects are nutrition-sensitive; and 60% of IFAD13 sovereign projects are youth-sensitive
	Ensure that farmers' organizations, Indigenous Peoples and youth are consulted in the development of relevant IFAD strategies and operational policies
	100% of new sovereign and non-sovereign investment projects linked to relevant country-level policy goals and supportive policy work by IFAD
	At least 25 projects include new South-South and Triangular Cooperation initiatives; and at least 20 projects integrate innovative approaches, including information and communications technologies for development (ICT4D) or digital agriculture
	100% of new country strategic opportunities programmes (COSOPs) (i) are aligned with nationally adopted food system transformation pathways where these exist; (ii) identify private sector opportunities; (iii) are aligned with national development strategies and national biodiversity strategies and action plans
	At least 10% of new projects use multiphased programmatic approaches
	Consolidate the portfolio by reducing the number of ongoing sovereign investment projects to approximately 200
Financing and resource allocation	Increase share of core resources to LICs from 40% to 45%
	Increase share of climate finance in programme of loans and grants from 40% to at least 45%
	Increase the mobilization of cofinancing resources to 1:1.6

[21] Projections based on scenario C.

	Increase share of core resources to countries affected by fragility and conflict from 25% to at least 30%
	Establish additional climate contributions as a new instrument to mobilize and leverage climate finance
Strategies/policies/ approaches	Present a consolidated strategy on climate, environment and biodiversity to the Executive Board, and plan a roadmap for IFAD's alignment with the Paris Agreement
	Present an updated Strategic Framework to the Executive Board
	Present an updated strategy on private sector engagement, and a framework for implementing the new PSFP funding modalities to the Executive Board.

Introduction

1. At its forty-sixth session in February 2023, IFAD's Governing Council established the Consultation on the Thirteenth Replenishment of IFAD's Resources (IFAD13). The Council requested that the Consultation submit a report on the results of its deliberations to the forty-seventh session in February 2024. [Representatives of IFAD's Member States met during 2023, and finalized and endorsed this report at the fourth session of the IFAD13 Consultation, co-hosted by the Governments of France and Angola, on 15 December 2023.]

2. Members of the IFAD13 Consultation acknowledged that IFAD makes a unique and critical contribution to the 2030 Agenda through promoting rural transformation, investing in food systems, and empowering poor and food-insecure rural people. They noted that IFAD's investments achieve significant impact: improving the production, market access, resilience and food security of tens of millions of poor rural people and small-scale producers and providing good value for money for contributors to the Fund.

3. There is growing international recognition of the urgent need for investments that effectively address escalating poverty, hunger, instability and climate change. In this context it was agreed that IFAD must increase its impact by 2030.

4. This requires a continued evolution of IFAD's business model, based on a more integrated and adaptive financial and programmatic package. During IFAD13, the Fund will amplify its impact at the country level, building on its comparative advantage of working in rural areas with vulnerable and marginalized rural people, and its greater in-country presence thanks to decentralization, and also by capitalizing on recent financial and organizational reforms. Priority will be given to enhancing IFAD's approach to engaging in fragile and vulnerable contexts, including small island developing states (SIDS), to boosting support for climate-resilient agriculture, environmental sustainability and biodiversity management, and to unlocking more private sector investment to achieve greater impact on rural livelihoods.

5. The theory of change for the IFAD13 business model is captured in figure 1. At the highest level, IFAD will maintain its ambition of making a significant contribution to the Sustainable Development Goals (SDGs). In the second tier, IFAD's development impact for the 2030 Agenda is focused on engaging in fragile contexts, investing in climate resilience and biodiversity, and boosting private sector engagement.

6. In the third tier, operational and organizational performance, IFAD13 prioritizes delivering impact through its country programmes. Better integration among the full range of financing sources across IFAD's programme of work (PoW), stronger adaptability in how IFAD manages programmes, and enhanced sustainability and scalability will all contribute to this effort. To ensure that IFAD is positioned to support integrated country programmes, efforts will continue to consolidate organizational effectiveness and efficiency, in line with the 2023 assessment by the Multilateral Organization Performance Assessment Network (MOPAN), and to enhance IFAD's important role as an assembler of development finance.

7. The key principle underpinning the IFAD13 business model is ensuring inclusion to empower rural communities, focusing on the last mile and those most at risk of being left behind. Here IFAD will do more of what it does best: assembling and deploying investment to rural people and small-scale producers to equip them with the tools to transform local food systems for sustainable change, leveraging its own financing, knowledge and partnerships.

Figure 1
IFAD13 Framework

8. Members of the IFAD13 Consultation are confident that IFAD can set and achieve ambitious goals for IFAD13, based on its strong track record of delivering results. This report outlines a business model and financial framework with corresponding targets and commitments to deliver impact. It reflects the conclusions of the IFAD13 Consultation process, and the guidance provided by Member States. The report is divided into the following main sections, with further information included in the annexes:

(i) Overall context of the IFAD13 Consultation;

(ii) IFAD's strategic direction and value proposition;

(iii) Main elements of the IFAD13 operational business model;

(iv) Organizational aspects; and

(v) Financial framework.

I. Context

9. **In recent years, economic slowdown, conflicts, climate-related shocks, persistent and growing inequalities, and a global pandemic have hindered growth and development, setting back efforts to end poverty and hunger by 2030.** These crises have compounded existing challenges, leaving many low- and middle-income countries ill-prepared to withstand additional shocks and struggling to make the investments required to get the SDGs back on track. However, today's food crisis is not only the result of the numerous crises the world is currently facing; it is also fundamentally rooted in the structural weaknesses,

inequities and lack of resilience that plague food systems, and is further exacerbated by chronic underinvestment in agriculture and rural development.[22]

10. **In 2021, more than 3.1 billion people could not afford a healthy diet and in 2022, up to 783 million people were going hungry** – 122 million more people than in 2019, before the COVID-19 pandemic.[23] Extreme poverty also remains unacceptably high, at close to 700 million people affected.[24] With current trends, in 2030 it is likely that 575 million people will still be living in extreme poverty and 670 million will still be facing hunger.[25] Projections on climate are equally alarming. Before 2030, the global temperature rise is predicted to breach the critical 1.5-degree threshold, which will have severe and irreversible impacts on agricultural production, fisheries and the natural ecosystems on which most rural livelihoods depend.[26] Failing to address this imminent threat with immediate and substantial investment will not only jeopardize food security but also plunge countless communities into a state of perpetual vulnerability and poverty, exacerbating the current global food crisis to unprecedented levels.

11. **Food insecurity disproportionately affects people living in rural areas.** Rural areas and rural people are acutely affected by climate change and conflict[27] and suffer from underinvestment and a lack of access to economic opportunities, making them more prone to poverty and vulnerable to extremism, migration, hunger and malnutrition.[28] Moderate or severe food insecurity affected 33.3 per cent of adults living in rural areas in 2022 compared with 26 per cent in urban areas.[29] When crises hit, rural people have limited assets and savings to cope with disruptions to incomes.

12. **There is an explicit connection between the well-being of rural households and food security and nutrition.** Small-scale producers – the focus of IFAD's support – have a critical role in local food systems. They 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.[30] As urbanization increases, with seven in 10 people projected to live in cities by 2050,[31] rural people face additional pressure to produce, process and deliver food for a growing population. Higher food prices force families to make painful trade-offs: reducing meals or their quality, dropping out of schools or reducing health care spending. This has significant long-term effects, from higher poverty levels, to rising inequality, lower productivity and declining real wages. It can also fuel social and political unrest. As the bulk of household food consumption in rural households comes from purchases,[32] keeping food available for both rural and urban populations and ensuring access to income to buy food must be a key priority.

[22] HLPE, 2020. Food security and nutrition: Building a global narrative towards 2030. A report by the High Level Panel of Experts on Food Security and Nutrition of the Committee on World Food Security.
[23] The Food and Agriculture Organization of the United Nations (FAO), International Fund for Agricultural Development, United Nations Children's Fund, World Food Programme (WFP) and World Health Organization, The State of Food Security and Nutrition in the World 2023.
[24] World Bank, Poverty and Shared Prosperity Report 2022: Correcting Course. However, a more recent World Bank blog highlights the data challenges affecting ability to accurately estimate the precise impacts of the COVID-19 pandemic on poverty.
[25] See footnote 22.
[26] See footnote 11.
[27] See IFAD, Rural Youth in the Context of Fragility and Conflict and IFAD, What Can Smallholder Farmers Grow in a Warmer World?
[28] See footnote 2.
[29] See footnote 22.
[30] IFAD. 2021. Rural Development Report: Transforming food systems for rural prosperity.
[31] See footnote 22.
[32] See footnote 22.

13. **Multiple global crises have exposed vulnerabilities in our food systems, underscoring the need for urgent and increased investments.** Current food systems lack resilience and fail to provide decent livelihoods for many that work within them – especially when crisis strikes, as seen in 2008 and 2021, where heatwaves, droughts or conflicts disproportionately impacted poor countries.[33] Past food and agricultural policies, though well intentioned, have contributed to poor nutrition, environmental decline and rural inequality. Increased investments are needed to build food systems resilience and attain the goals of food systems transformation: ensuring that people are able to consume healthy diets, produce food sustainably, and earn a decent livelihood. Investments in agriculture and rural development are among the most effective means of addressing poverty and hunger and a critical pathway to deliver on the SDGs, particularly in the poorest and most vulnerable countries. These investments could also unlock the potential of sustainable food systems, which could generate US$4.5 trillion in new business opportunities every year. Food systems transformation could also create over 120 million decent rural jobs, help limit global warming and regenerate natural ecosystems and biodiversity, while also reducing the estimated US$12 trillion in costs and waste generated annually by the current food system.[34]

14. **Yet, an uneven economic recovery and limited fiscal space reduce investment capabilities for addressing the root causes of poverty and food insecurity.** The deadly combination of COVID-19, climate change and conflict have contributed to global average growth prospects being revised downward and the deterioration of fiscal balances across the developing world. At least 54 developing economies – home to more than 50 per cent of the people living in extreme poverty – are suffering from severe debt problems. Without access to significantly increased amounts of concessional finance, they will struggle to make the investments required to progress on the SDGs, particularly as climate change impacts worsen, and the cycle of debt, poverty and crisis will continue. We must invest in building resilience to future crises, because business-as-usual investments will not be enough.[35]

15. **Given the systemic nature of this crisis, stronger political will and commitment are paramount.** Emergency and humanitarian response is critical for saving lives, but urgent and sustained investment is also needed to address underlying vulnerabilities and avoid future crises.[36] Despite global commitments to increase investment in agriculture and end hunger by 2030, donor support for agriculture has been stagnant at just 4 to 6 per cent of total official development assistance for at least two decades – well below the historical levels of 15 to 20 per cent provided during the 1970s and 1980s.[37] The consequences are clearly seen in data for the period 2010–2019 that show agricultural investment declining as a share of overall aid, while emergency food aid significantly increases, and more than doubles in dollar terms.[38]

16. **IFAD13 provides a framework for investing in solutions with lasting impact.** In today's multi-crisis context, one disaster quickly follows another, with

[33] Hoddinott, J. 2023. Food Systems, Resilience, and Their Implications for Public Action. In: Béné, C., Devereux, S. (eds) Resilience and Food Security in a Food Systems Context. Palgrave Studies in Agricultural Economics and Food Policy. Palgrave Macmillan, Cham. https://doi.org/10.1007/978-3-031-23535-1_6.
[34] See footnote 12.
[35] United Nations Development Programme, 2022. Avoiding 'Too Little Too Late' on International Debt Relief.
[36] The Ceres2030 report estimates that current annual official development assistance for agriculture would need to increase by another US$14 billion and be combined with an additional US$19 billion in government investment to close the SDG 2 financing gap.
[37] See footnote 8.
[38] Global Donor Platform for Rural Development. Donor contributions to food systems: Stocktaking Report, December 2021.

no time for recovery. Now is the time to invest in sustainable, inclusive and robust food systems so that when future crises hit, communities have the strength to withstand them, without the need for emergency aid. This is both ethical and cost-effective, as every dollar invested in resilience today can save up to US$10 in emergency aid in the future.[39] IFAD has a unique focus and experience in investing in inclusive and sustainable rural transformation. As a specialized organization established to address the food crisis in the 1970s, IFAD can contribute more to building resilience of rural communities and strengthening global food systems. With limited official development assistance and growing fiscal constraints, the world cannot afford to continuously move from one crisis to the next. IFAD, as an international financial institution (IFI), has a key role to play in maximizing the limited resources and scaling up affordable financing for development, in line with the United Nations Secretary-General's call for an SDG Stimulus.[40]

II. IFAD13 strategic direction and value proposition

17. **IFAD was established almost 50 years ago by its Member States in response to the food crisis of the 1970s.[41]** Unlike other development organizations, IFAD has a distinct focus on investing in inclusive and sustainable rural transformation, making it uniquely positioned to address the challenges faced by rural communities. With its specialized mandate, IFAD aims to transform rural economies, provide essential long-term resilience support in fragile contexts, invest in rural people and small-scale farmers to support them in adapting to climate change, and foster private sector engagement to end poverty and food insecurity in developing countries.

18. **To do this, IFAD targets and invests in "the last mile", reaching remote rural areas and supporting millions of people to increase their productivity and incomes, access markets, improve their food security and nutrition, find jobs and build resilience to climate change**. IFAD supports rural communities by strengthening their capacities and organizations, building their resilience, and empowering them to make their voices heard so that they secure the investments and support they require. In line with the Strategic Framework 2016-2025, IFAD's focus is on small-scale producers and family farmers, rural workers, women and youth, Indigenous Peoples, marginalized ethnic groups and victims of disaster and conflict.

19. **Today IFAD's mission is as vitally important as ever**. Recent shocks have increased the vulnerability of rural communities, which are already home to the majority of those living in extreme poverty and food insecurity. The worsening effects of climate change threaten to further escalate poverty and food insecurity, unless investments in adaptation are scaled up. Evidence shows that IFAD's work of investing in agriculture and food systems transformation can effectively tackle these interconnected crises – in partnership with rural communities, governments and international partners and especially targeting the regions and communities most in need. IFAD's targeted investments and partnerships are a cornerstone of its impact and well recognized by the countries that benefit from its financing. Such recognition and trust are evident from the level of support shown in IFAD12, when almost 90 List C developing countries contributed voluntarily to IFAD's replenishment and, once again for IFAD13, developing countries have been the first to announce their support (see annex X). IFAD funding also mobilizes domestic cofinancing at project level, where the Fund helps to mobilize more effective public

[39] See footnote 14.
[40] See United Nations Department of Economic and Social Affairs.
[41] 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".

investment that is targeted to the most vulnerable rural populations in places where it is needed most.

20. **IFAD is increasing impact and reach.** During the IFAD11 period, IFAD financing contributed to over 77 million rural people increasing their incomes, 64 million increasing their market access, 58 million improving their food security, and 38 million increasing their resilience. IFAD championed rural women's empowerment, increasing by 27 per cent the decision-making power of women in rural households. IFAD's results are reported in a transparent, systematic and accurate way, drawing on impact assessments and reflected through the annual Report on IFAD's Development Effectiveness (RIDE).

21. **In 2021, IFAD was rated as the most effective and efficient multilateral development organization globally by the Center for Global Development.**[42] This rating reflects IFAD's comprehensive internal change process, which was initiated in 2017 and is directed towards enhancing programme design and delivery, consolidating financial sustainability, and ensuring the quality of results. In recent years, IFAD also received a positive assessment from MOPAN[43] and is currently the only United Nations agency to be fully pillar-assessed by the European Union.

22. **IFAD's comparative advantage enables it to assemble finance to catalytically transform agriculture, rural economies and food systems.** IFAD is the first United Nations fund to receive a credit rating. IFAD is seen by its borrowers and partners as an effective provider of sustainable financing for rural transformation and small-scale agriculture. Since 1977, IFAD has converted every dollar of core contribution from Member States into six dollars of investment on the ground.[44] Over recent years, IFAD has increased cofinancing and attracted additional resources, demonstrating its comparative advantage in reaching and transforming rural communities. A record high cofinancing ratio of 1:1.95 was achieved during IFAD11 and total supplementary funds provided to IFAD by its partners increased from US$188 million in IFAD9 to US$334 million during IFAD10, and to US$728 million during IFAD11.

23. **IFAD provides leadership to strengthen the international aid architecture for food systems transformation.** IFAD, as the global fund for investing in agriculture, has a key role in facilitating coordination and reducing fragmentation. At the global level, IFAD actively leads and contributes to many strategic initiatives, such as the Global Crisis Response Group, the Global Alliance for Food Security, the Food and Agriculture Resilience Mission, and the Global Donor Platform for Rural Development (GDPRD).[45] Together with the Rome-based agencies (RBAs), IFAD provides leadership and contributes to the core budget of the Committee on World Food Security (CFS), along with other multilateral and global policy forums such as the United Nations Decade of Family Farming. IFAD is also co-lead of the United Nations Food Systems Summit follow-up. Under the 2023 G7 Japanese Presidency for example, IFAD has been assigned lead responsibility to strengthen G7 private sector engagement with small-scale producers in developing countries.[46] At the regional level, IFAD is active in critical areas such as the Sahel through the RBAs' regional programmes and in small island developing states, and plays a leadership role in the Great Green Wall Initiative. IFAD also works closely with multilateral

[42] See footnote 16.
[43] MOPAN. 2019. MOPAN 2017-18 Assessments. International Fund for Agricultural Development (IFAD). A new MOPAN assessment of IFAD is currently ongoing and is expected to be finalized in late 2023.
[44] With US$10.3 billion in paid-in contributions since its establishment, IFAD has mobilized a total PoW of US$61 billion, including US$24.2 billion in approved IFAD financing (including for global and regional grants) and US$37 billion in domestic and international cofinancing (IFAD Grants and Investment Projects System, January 2023).
[45] GDPRD helps shape the thinking, policies and programming of the global donor community around food systems and rural development to accelerate progress towards the SDGs and longer-term prosperity and sustainability. More information is available here.
[46] IFAD, 2023. Japan and UN's IFAD boost global food security by connecting small-scale producers to the private sector.

development banks (MDBs), including through cofinancing, mutual learning and knowledge exchanges. At the country level, IFAD is aligned with Member States' national priorities and engages as a member of United Nations country teams, together with the other RBAs. It also works with other public, private and non-governmental partners, including other development partners, to maximize investment in food and nutrition security: for example IFAD is leading the mobilization of US$3.5 billion for the food pillar of Egypt's country platform for the Nexus of Water, Food and Energy Programme.

24. **IFAD is purpose built for this challenging global context.** IFAD's partners recognize the potential of IFAD13 to invest in sustainable agriculture, and deliver on reducing carbon emissions, preserve biodiversity and combat poverty. For instance, the IFAD13 Consultation features as a key milestone in the roadmap that was developed at the Summit for a New Global Financial Pact discussed in Paris in June 2023.[47] With its focus on addressing poverty and protecting the planet, the summit perfectly aligns with IFAD's mission.[48] IFAD13 is a key opportunity to achieve the "leave no one behind" principle of the 2030 Agenda, with increased IFAD engagement with the poorest people and poorest countries.[49]

25. **Building on its clear comparative advantage and with increased Member State contributions, IFAD can deliver more financing and enhance its impact.** IFAD13 comes at a crucial moment and IFAD is positioned to make a significant impact, working with its partners, to build rural resilience for a food-secure future. With increased Member States' contributions, IFAD can continue to work incrementally towards doubling its impact by 2030, with a target of approximately 34 million rural people per year with increased income during IFAD13. To achieve this, the strategy in IFAD13 focuses on expanding IFAD's PoW, enhancing operational effectiveness, and capitalizing on recent reforms to tailor programmes to countries' development priorities, ensuring IFAD delivers results on the ground. IFAD will also leverage existing instruments, integrate various sources of finance and foster synergies among investments, prioritizing the enhancement of rural livelihoods through income generation, local production, markets and resilience.

III. IFAD13: Building resilient rural livelihoods and food systems

26. **Resilience enables vulnerable populations to better cope with shocks and increases the sustainability of impact**. Resilience is necessary to make real progress on the SDGs, limit loss and damage from climate change, and avoid frequent reversals of development gains in times of crisis. Investment in resilience is highly effective in reducing the cost of future crises: evidence shows that every dollar spent on resilience now saves up to US$10 in emergency aid in the future.[50]

27. **IFAD invests in building resilient rural livelihoods and food systems through sustainable agriculture, diversified income sources and robust local institutions, reducing vulnerability to food crises**. Strengthening local governments, cooperatives and community organizations empowers communities to respond effectively to challenges. Infrastructure development, local market support, and climate-resilient agriculture foster self-reliance. IFAD prioritizes small-scale farmers and promotes gender equality and youth inclusion. By

[47] Summit for a New Global Financial Pact. Proposed roadmap to build on key milestones of the international agenda as a follow-up to the Summit on a New Global Financing Pact.
[48] Guiding principles agreed at the summit include: (i) no country should have to choose between fighting poverty and fighting for the planet; (ii) countries face different needs, and may need to pursue diverse transition paths; (iii) there is a need for a financial stimulus with more resources to support vulnerable economies; and (iv) meeting global challenges depends on scaling up private capital flows. More information is available here.
[49] Political declaration of the high-level political forum on sustainable development convened under the auspices of the General Assembly (A/HLPF/2023/L.1).
[50] See footnote 14.

leveraging all these elements, as well as technology, innovation and partnerships, IFAD enhances local food systems resilience so that shocks – whether they arise from extreme weather events, market fluctuations or other disruptions – do not lead to widespread hunger and deprivation. This enables individuals, communities and nations to withstand crises, safeguard livelihoods and maintain stability in the face of adversity.

28. **Three of the greatest challenges to building resilient rural livelihoods and food systems are: (i) increasing fragility; (ii) climate change; and (iii) inadequate private sector investment in rural areas.** As outlined in previous sections, these three issues, respectively, increase the likelihood and worsen the impact of social, environmental and economic shocks; threaten agricultural production, ecosystems, infrastructure and livelihoods; and limit access to the markets and financing required to complement public investments, transform food systems and deliver on the SDGs.

29. **In IFAD13, IFAD will place additional focus on these three priority areas:** it will enhance its operational approach to engagement in fragile contexts; expand its support to rural communities in **climate-resilient agriculture and biodiversity management;** and further leverage the **private sector** to achieve lasting impact. These priority areas are closely interlinked and respond directly to the challenges currently faced in delivering on the SDGs. While they are not new to IFAD, they present significant opportunities where IFAD can build on its experience to deliver more and better results for its target groups. The following section outlines how IFAD will invest in building resilience in IFAD13, incorporating these priorities. It addresses how IFAD will operationalize these focus areas, while ensuring inclusivity by targeting the poorest and most marginalized communities and continuing IFAD's commitment to gender, youth, social inclusion and nutrition.

A. Enhanced focus on fragile contexts

30. **IFAD acknowledges the growing complexities presented by fragility, conflict and displacement across the globe, particularly in a context of worsening climate change.** Achieving sustained progress on the SDGs in fragile contexts is hampered by exposure to risks linked to social, economic, political, governance, security or environmental and climatic factors and to frequent shocks and insufficient capacity to manage, adapt or respond. More than half of the countries with fragile situations are at risk of a major climate disaster.[51] The war in Ukraine and its related spillovers, including on food, fertilizer and energy prices, further aggravate the situation.

31. **Poverty is already predominantly rural, and extreme poverty is increasingly concentrated in fragile and conflict-affected rural areas.** By 2030, approximately two thirds of people living in extreme poverty in rural areas will be in countries defined by the World Bank as affected by fragility and conflict.[52] Given these trends, IFAD's ability to deliver results in such situations becomes mission critical. Furthermore, it is well recognized that IFAD's work – reducing poverty and food insecurity, increasing women's empowerment, boosting youth employment, and strengthening local institutions and management of land and water resources – has the potential to address some of the key drivers of fragility and vulnerability[53] in the areas where IFAD operates.

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[51] International Monetary Fund (IMF), 2022. The IMF Strategy for Fragile and Conflict-Affected States.
[52] See footnote 15.
[53] As highlighted during the recent Executive Board discussion on IFAD's role in fragile situations (EB 2023/138/R.2), key drivers of fragility that relate to IFAD's mandate include institutional weaknesses, particularly at local level, vulnerability to environmental and climatic shocks, and social inequalities.

32. **IFAD has extensive experience and specific expertise for operating in fragile rural areas.** IFAD is active in almost all countries included on the World Bank list of fragile and conflict-affected situations, and in other locations that are also marginalized, remote and highly vulnerable, including small island developing states. Indeed, IFAD has been active in fragile contexts and in addressing fragility since its establishment. As highlighted in recent evaluations and strategies,[54] IFAD brings expertise in achieving results at scale for rural people and mobilizing partners to invest in rural areas, including those affected by fragility. IFAD engages with rural communities and subnational administrations, which complements the national and sectoral focus of other IFIs, and can be particularly important for strengthening local institutional capacity to build resilience and reduce vulnerability.

33. **IFAD will strengthen its focus on fragile contexts during IFAD13, leveraging its own experience and that of its partners to build resilience and achieve sustainable impact.** The nature of fragility and the factors driving vulnerability in different contexts are constantly changing, as are the best ways to work in these contexts. As described in this paper and annex IV, IFAD will respond to this during IFAD13 by:

- Strengthening its internal capacity, tools, networks and partnerships, ensuring that IFAD can remain engaged and continue providing appropriate support to rural communities during periods of crisis.
- Contributing to development outcomes around the humanitarian-development-peace nexus, in coordination with the work of its sister agencies – WFP and FAO – and of other development partners, IFIs, civil society organizations (CSOs) and the private sector.
- Increasing the target allocation of core resources for countries with fragile situations, while crowding in additional financing, especially from international partners and the private sector, while recognizing that the quality of financing (including concessionality, delivery channels, appropriate tailoring of activities to the context) is at least as important as the amount in many fragile situations.
- Focusing on women and girls' empowerment as a critical cross-cutting theme in all of IFAD's work, including in fragile contexts.

34. **IFAD engages in fragile contexts through tailored interventions that address the multifaceted risks associated with fragility.** Advanced assessments will be conducted in each situation to better understand the multiple dimensions of fragility, laying the groundwork for effective and targeted approaches and building upon the broader assessments undertaken by development partners. To bolster resilience, IFAD's approach includes adopting flexible programming in fragile environments, providing focused support and guidance to rural communities, and recognizing the particular vulnerabilities that often affect women and girls and other young people in fragile situations. To support sustainable livelihoods and economic growth in the most difficult rural areas, IFAD will finance tailored interventions that provide alternative pathways for communities to thrive and reduce the pressures that lead to tensions, unrest and migration, especially for youth. This may include supporting small-scale farmers, including women farmers, and rural communities with climate-resilient agricultural practices, drought-resistant crops, and sustainable land management techniques. It may also include building the capacity of rural institutions to cope with shocks and help mitigate conflicts over scarce resources, and strengthening the role and voice of women in

[54] Namely: (i) Addressing fragility through a focus on rural livelihoods: a reflection on IFAD's role, EB 2023/138/R.2; (ii) internal report of the cross-departmental working group on IFAD's interventions in conflict-affected situations (2021); (iii) lessons to strengthen IFAD's approach to fragility, as contained in the Report of the Consultation on the Twelfth Replenishment of IFAD's Resources (2021); (iv) IFAD's Special Programme for Countries with Fragile Situations (2019); and (v) IFAD's Strategy for Engagement in Countries with Fragile Situations (2016).

local institutions and in leadership positions. Leveraging digital tools and coordination mechanisms, IFAD also aims to enhance the Fund's own operational efficiency and responsiveness on the ground. An enhanced training programme and dedicated expertise through the new fragility unit will improve IFAD's effectiveness and responsiveness.

35. **IFAD will increase the target share of core resources to fragile situations from 25 per cent to at least 30 per cent.**[55] This commitment reflects IFAD's dedication to supporting people and groups in vulnerable situations and promoting sustainable development in regions affected by fragility. By targeting resources where they are most needed, IFAD plays a significant role in alleviating poverty, enhancing food security and nutrition, and fostering stability in some of the world's most challenging environments. In addition, IFAD will mobilize supplementary resources to invest in fragile situations, building on existing IFAD trust fund mechanisms and initiatives.[56]

36. **Partnerships strengthen IFAD's ability to fulfil its mission in fragile situations in line with its mandate and comparative advantage.** In particular, IFAD will ensure that its engagement is coordinated and complementary to broader United Nations peacebuilding and humanitarian efforts. IFAD, FAO and WFP each have well-defined mandates and operational modalities through which they have established their own strengths; these can be better aligned to build resilience and improve food security and nutrition in fragile situations. In IFAD13, IFAD will work with FAO and WFP to deliver well-coordinated RBA investments with strong country ownership. IFAD will also operationalize its partnership with the United Nations Peacebuilding Fund, focusing on working more closely with partners engaging in United Nations peacebuilding activities to leverage IFAD-financed investments in livelihoods, food security and resilience to support local activities for social cohesion and women and girls' empowerment in fragile contexts. IFAD will also use its unique position as an IFI and United Nations agency to bridge the gap between the MDB Working Group on Fragility, Conflict and Violence (FCV) and other United Nations actors, in particular the RBAs, through a focus on knowledge exchange in relation to smallholder farmers and food security and nutrition. Furthermore, IFAD will leverage its role in the CFS, and its participation in fragility-focused networks and communities of practice such as the Global Network Against Food Crises.

37. **IFAD's Strategy for Engagement in Small Island Developing States 2022-2027[57] guides actions to address the unique challenges faced by these countries to consolidate and strengthen IFAD's global approach**. The strategy, which covers the entirety of the IFAD13 period, recognizes that smallholder farmers and rural households in SIDS suffer from limited economic opportunities and environmental vulnerabilities that constrain their ability to achieve food and nutrition security, and resilient livelihoods. For example, in half of these countries, 80 per cent of food is imported and, in the poorest SIDS, 20 per cent of children are affected by stunting. Meanwhile, agriculture continues to be an important source of livelihood, accounting for 31 per cent of employment in Pacific SIDS and almost 20 per cent in SIDS overall. There is considerable potential to strengthen sustainable, nutrition-sensitive and inclusive food systems, and improve market access both within and outside SIDS, for example in the tourism sector and speciality food markets, and to support non-farm rural micro, small and medium-sized enterprises and job creation. The strategy defines specific action areas, including enhanced resource mobilization and improved in-country presence, policy

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[55] This target is an outcome of the performance-based allocation system (PBAS) and not a separate allocation. Achievement of this target is subject to no major changes occurring in the World Bank FCS list. It is also dependent on the IFAD13 scenario achieved as many of the countries on the current FCS list are eligible for 100 per cent grant financing.
[56] Such as the Facility for Refugees, Migrants, Forced Displacement and Rural Stability, the Rural Poor Stimulus Facility, and the Crisis Response Initiative.
[57] EB 2022/135/R.5.

engagement and partnerships to support development assistance in SIDS. The aim is to promote adoption of profitable and sustainable food systems, expand rural non-farm enterprises and income generation options, and increase resilience to climate change and environmental shocks. During IFAD13, Management will assess the progress made in implementing the strategy and propose updating and/or extending it after 2027.

38. **IFAD will also expand its use of South-South and Triangular Cooperation (SSTC) to share solutions and experience in addressing the root causes of fragility.** IFAD's South-South and Triangular Cooperation Strategy for 2022-2027 identifies resilience, fragility and employment among its areas of thematic focus. IFAD will promote learning across countries with situations of fragility, with particular focus on local institutions, rural enterprise development and climate-resilient agricultural techniques and technologies. IFAD will also improve its monitoring and evaluation of projects in fragile situations, including through ICT tools such as geospatial mapping and remote sensing and seek to share this knowledge with partners.

B. Investing in biodiversity and climate resilience of small-scale producers

39. **Climate change poses significant challenges to agriculture and small-scale farmers, especially in developing countries.** The impacts of climate change on agriculture and food systems are already felt across Africa, Asia, Central and South America, and small island developing states.[58] Seventeen of the 20 most climate-vulnerable countries are located in Africa, and 88 per cent of these are low-income countries (LICs).[59] Without increased investments in climate adaptation, predictions are clear that climate change will continue to put increasing pressure on food production and access, undermining food security and nutrition.[60] Yet those most affected and vulnerable to the impacts of climate change are underserved by climate finance, in particular for adaptation.[61]

40. **Climate change adaptation and mitigation go hand in hand with IFAD's focus on rural development and poverty reduction.** By investing in climate change adaptation and mitigation, promoting climate-resilient and low-emission investments, and mobilizing climate finance, IFAD aims to build resilience and foster sustainable agricultural practices for a more climate-resilient future, while integrating a strong focus on gender, youth, social inclusion and nutrition. This approach is aligned with IFAD's mission of eradicating poverty and hunger while promoting sustainable development in the face of climate change.

41. **Biodiversity loss is also a critical challenge.** Biodiversity loss is affecting small-scale producers worldwide, jeopardizing their livelihoods and production and consumption systems.[62] Yet, biodiversity at every level (genetic, species and ecosystem) is a foundational pillar for life-sustaining ecosystem services that have multiple benefits for people and communities. These include long-term productivity, climate change adaptation and mitigation, food security and improved nutrition, all of which build resilience. Ensuring biodiversity protection and its sustainable use and management is therefore fundamental to IFAD's work.

42. **IFAD urgently needs to increase climate finance for small-scale farmers in developing countries, who are highly vulnerable to the impacts of climate change and biodiversity loss.** By bolstering climate-resilient practices and sustainable land management, IFAD can empower farmers to adapt to a changing

[58] IPCC, 2022. Summary for Policymakers.
[59] Based on the climate vulnerability rating of the Notre Dame Global Adaptation Initiative.
[60] See footnote 54.
[61] International Federation of Red Cross and Red Crescent Societies. 2022. Where it Matters Most – Smart climate financing for the hardest hit people.
[62] IFAD. 2021. Biodiversity strategy 2022-2025.

climate, contribute to global climate targets and advance sustainable agriculture. To address the growing demand, IFAD will increase and mobilize diverse sources of climate financing, and employ innovative financial instruments, ensuring that small-scale farmers have the necessary resources to build a resilient future.

43. **In IFAD13, a high premium will be placed on context-specific, integrated adaptation and resilience-building interventions based on local climate risk scenarios and ecological conditions.** All new country strategic opportunities programmes (COSOPs) will be aligned with Nationally Determined Contributions (NDCs) and national biodiversity strategies and action plans (NBSAPs). IFAD will scale its work on climate and biodiversity combining the following approaches based on country context and needs:

- Increasing investments in **climate-resilient agriculture** to boost productivity, improve food security and nutrition, and reduce greenhouse gas emissions. These investments will entail promoting crop diversification for nutrition and resilience, efficient irrigation techniques, sustainable land management practices, and measures to reduce food loss and waste. IFAD will continue to build on demonstrated results through investments that promote soil conservation, water management, and agroecological and other innovative approaches.[63]

- 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. This will include upgrading infrastructure to withstand both extreme weather events and slow-onset events, and protect against both economic and non-economic losses, and incorporating green infrastructure elements to enhance resilience (box 1).

- Investing in projects that promote **ecosystem restoration, ecosystem-based adaptation, sustainable land management and sustainable use of biodiversity, notably through agroecological approaches, including agroforestry, and biodiversity conservation** to 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. An increased focus on biodiversity would also imply aligning biodiversity monitoring with Kunming-Montreal Global Biodiversity Framework indicators and rolling out new biodiversity standards within IFAD's Social, Environmental and Climate Assessment Procedures (SECAP) to inform biodiversity-positive interventions.

- Investing in **early warning systems and disaster risk reduction** to help rural communities respond to climate-induced hazards such as floods, droughts and storms and support last-mile delivery of climate information and early warning services. For example, in Kyrgyzstan, IFAD's investments in improved forecasting helped reduce livestock mortality. In Bangladesh, investments in infrastructure and livelihoods built resilience to frequent floods. Partnering with the RBAs, IFAD piloted index-based insurance in Ethiopia, covering asset losses from extreme weather events. This can be expanded under IFAD13 based on demand. IFAD's work in this area is aligned with the Sendai Framework for Disaster Risk Reduction 2015-2030, as well as the "Early Warnings for All" initiative. IFAD has also joined the Systematic Observations Financing Facility.

[63] IFAD's stocktake on agroecology approaches in IFAD's operations. IFAD has incorporated agroecological practices in approximately 60 per cent of projects completed between 2018 and 2023.

- Sustaining efforts to **measure and understand resilience to climate and other shocks.** 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. IFAD will continue to measure the resilience of its PoW to climate, economic and other shocks through an "ability to recover"[64] 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.

Box 1
IFAD invests in climate-resilient rural infrastructure

- In Bangladesh, the Coastal Climate-Resilient Infrastructure Project successfully raised road levels and reinforced marketplaces. 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 the effectiveness of these interventions during a cyclone.
- In Uganda, thanks to IFAD's support, upgraded all-weather roads have led to reduced travel time, higher farmgate prices and better road maintenance, as highlighted by the IOE's 2021 country strategy and programme evaluation.
- The Iranamadu Irrigation Development Project, 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 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.

44. **These approaches will form the basis of the new consolidated strategy on IFAD's work on climate, environment and biodiversity, which will be developed during IFAD13.** This new strategy will increase IFAD's support to countries to effectively integrate climate adaptation, environmental sustainability and biodiversity management into policies and investments. IFAD will begin reporting on Rio climate markers, alongside the MDBs' methodologies for climate finance tracking to provide a broader picture of IFAD's climate work, and to facilitate contributors wishing to make use of Rio markers in their climate finance accounting. A more systematic approach to monitoring impact on greenhouse gas emissions through project economic and financial analyses will be explored. This could be included as part of a Paris alignment roadmap that IFAD will seek to develop, linked to the new strategy and aligned with the joint MDB approach to Paris alignment.[65] In this way, IFAD will work towards ensuring that its investments are Paris-aligned, and better assist countries in implementing their national climate plans (NDCs and NBSAPs).[66] However, it is important to highlight that IFAD's mandate and the nature of its investments mean that the Fund is already well advanced in ensuring Paris alignment. Analysis undertaken to establish the greenhouse gas emissions from IFAD's portfolio confirms that IFAD is a net greenhouse gas emissions sink in this regard.[67] In line with the **Kunming-Montreal Global Biodiversity Framework**, IFAD will also explore how to strengthen reporting on biodiversity, including through the use of the Rio markers on biodiversity and – in dialogue with the rest of the MDB community – the

[64] The recovery indicators are evaluated based on farmers' self-assessment of their perceived ability to recover from different types of shocks. IFAD uses two questions to assess these indicators. The first asks whether the household experienced any shocks, categorized into climatic and non-climatic domains. The second, asked to households that declared to have experienced at least one shock, assesses how households were impacted by the shock and whether they are worse off, the same as or better off than before.
[65] More details on the joint MDB methodological principles for assessment of Paris Agreement alignment can be found here.
[66] The 2021 update of IFAD's Social, Environmental and Climate Assessment Procedures reflects key international agendas including the Paris Agreement, the United Nations Convention to Combat Desertification, the Sendai Framework for Disaster Risk Reduction 2015–2030 and the Addis Ababa Action Agenda on financing sustainable development.
[67] IFAD. 2022. Paris Alignment. Greenhouse Gas Accounting Analysis for IFAD's Investment Portfolio in the AFOLU Sector.

possibility of adopting an internationally agreed methodology for tracking finance for biodiversity.

45. **IFAD will increase its climate ambition and deploy a set of diverse financing tools to implement its new consolidated strategy.** While continuing to ensure that climate change considerations are mainstreamed in 100 per cent of IFAD's investments, IFAD will increase the share of its programme of loans and grants (PoLG) that constitutes climate finance from 40 per cent in IFAD12 to at least 45 per cent in IFAD13. This will be measured in line with the MDBs' methodologies for climate finance tracking. To meet this target, dedicated efforts will be made during COSOP preparation and early project design to increase the focus on investments addressing climate change impacts on rural livelihoods and supporting low-carbon development. IFAD will also work towards ensuring that 30 per cent of its climate finance is focused on nature-based solutions[68] by 2030, while developing a specific methodology for measuring biodiversity finance as part of the planned climate, environment and biodiversity strategy.

46. **Additional climate contributions (ACCs) offer an added tool for building resilience through IFAD's PoLG.** IFAD is establishing ACCs as a new form of voluntary additional contribution to the Fund's core resources (full details are provided in annex VII). ACCs aim to raise additional funds to support activities within IFAD's investment programmes that directly contribute up front to climate adaptation and mitigation. By contributing to IFAD core resources, ACCs will enable IFAD to multiply these resources, fully leveraging IFAD's financial architecture to increase the funding available to Member States.[69]. The introduction of ACCs should not be considered a precedent for the creation of other thematic additional contributions to the resources of the Fund in the future. The case of climate finance is unique due to the extremely high relevance of climate change to IFAD's work, the existing deep integration of climate activities in IFAD's core business, the specific nature of global climate finance agreements and the importance of specifically measuring and reporting on climate finance under the Paris Agreement.

47. **The enhanced Adaptation for Smallholder Agriculture Programme (ASAP+) will remain an important instrument for building resilience at the country level.** ASAP+ makes it possible to direct targeted resources towards building climate resilience among small-scale producers in the lower-income categories, with a focus on innovation. As a dedicated trust fund, ASAP+ provides flexibility in how the funds are used while ensuring complementarity with the PoLG.

48. **IFAD will continue to mobilize international climate finance from the Green Climate Fund, the Global Environment Facility, the Adaptation Fund and other sources of climate funding.** IFAD expects to mobilize supplementary resources for climate finance in the range of US$200 million to US$300 million per year by the end of IFAD12 and aims to maintain this upward trend in IFAD13. IFAD will continue to strengthen partnerships with public development banks, the private sector and other stakeholders to mobilize more financing for biodiversity and climate resilience activities during IFAD13, including working to mobilize resources from the new biodiversity fund and to support Indigenous Peoples' groups and farmers' organizations to access finance earmarked for CSO direct access.

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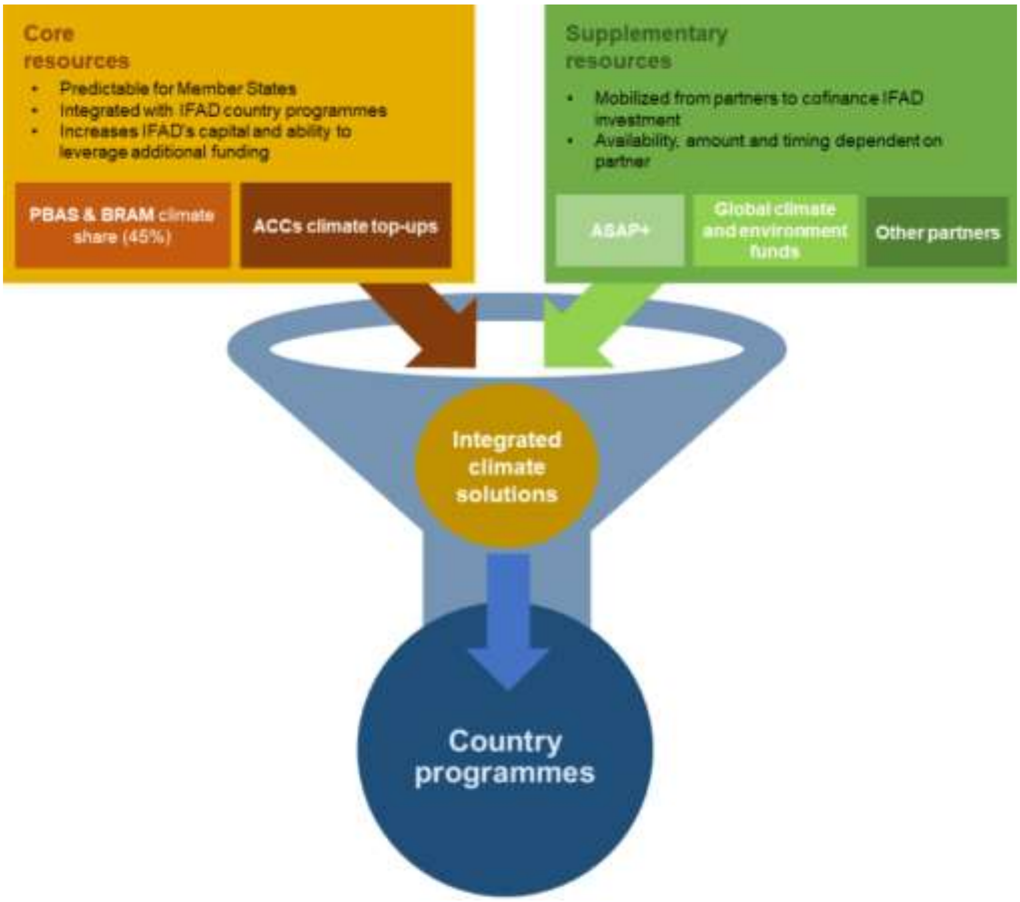
[68] Definition of "nature-based solutions" adopted by the United Nations Environment Assembly on 2 March 2022: "nature-based solutions are actions to protect, conserve, restore, sustainably use and manage natural or modified terrestrial, freshwater, coastal and marine ecosystems which address social, economic and environmental challenges effectively and adaptively, while simultaneously providing human well-being, ecosystem services, resilience and biodiversity benefits" UNEP/EA.5/Res.5 (2022). Nature-based solutions for supporting sustainable development.

[69] Indicatively, a contribution of US$100 million in the form of ACCs would catalyse an additional envelope of US$30 million from the borrowed resources, to be provided through the Borrowed Resource Access Mechanism (BRAM).

Figure 2
Channelling climate finance to small-scale farmers and rural people



C. Increasing engagement with the private sector

49. **The urgency to achieve the SDGs and combat the adverse effects of climate change necessitates bold investments and innovative solutions.** A successful transformation of food systems would generate significant returns. The total economic gains to society could reach US$5.7 trillion a year by 2030 and US$10.5 trillion a year by 2050. New business opportunities – including from tackling food loss, creating new value chains for regenerative agriculture and shifting to healthy diets – will be worth an estimated US$4.5 trillion a year by 2030.[70] Yet, current levels of public investment in agriculture and food systems transformation are not sufficient to unlock this potential and meet the demands of a growing population. With public fiscal pressures becoming more acute, catalysing increased private sector investment is crucial.

50. **The private sector can drive sustainable development, enhance rural livelihoods, and foster innovation.** For small-scale farmers, private sector investments in rural areas and agrifood value chains can be a lifeline, providing access to capital, technology and markets, empowering them to increase their productivity and income. The digitalization of agricultural value chains provides new opportunities for growing agribusinesses. New technologies have the potential to allow vital information – from weather data to market prices to soil and crop conditions – to be shared in real time, which enables farmers to adapt to climate change, benefit from improved prices, improve the quality of their products, and reduce food loss and waste. While agricultural enterprises often form the engine of rural economies, they struggle to access finance that is tailored to their needs. By engaging with the private sector, IFAD can leverage additional resources and

[70] See footnote 12.

expertise to support small-scale farmers and rural people. Responsible private sector investment can lead to increased productivity, job creation and income generation, ultimately improving the lives of rural communities and contributing to the achievement of the SDGs, including SDG 1 and 2.

51. **IFAD is positioned to harness the power of the private sector in rural areas.** IFAD has a successful track record of working with the private sector.[71] Its sovereign portfolio supports a wide range of investments that are key to building vibrant and inclusive rural markets, for instance by strengthening local infrastructure, services and local financial systems. Moreover, for decades, IFAD has been investing in inclusive value chains and facilitating partnerships between government, private companies and producers' organizations.[72] This approach has been successful in enhancing rural livelihoods in diverse country contexts (see box 2). Furthermore, IFAD effectively uses its own funding instruments to crowd in additional private investments and financial services to underserved rural areas.

Box 2
Supporting private sector engagement in fragile contexts

In Sudan, public-private-producer partnerships were established between an IFAD-financed project, producers' groups and three seed companies (the Arab Sudanese Seed Company, Nile Sun Seed Company and the Nectar Group). The IFAD-financed project built the involved farmers' capacities, while 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.

52. **In recent years IFAD has further enhanced its engagement with the private sector through the Private Sector Financing Programme.** The PSFP aims to directly invest in and catalyse private sector investments that benefit small-scale producers and rural communities. Its specific objectives are job creation and economic inclusion of youth, women's empowerment and promotion of climate adaptation and mitigation. Through debt, equity and risk mitigation mechanisms like risk-sharing and guarantees, PSFP provides crucial support to private sector partners, aligning with IFAD's strategic objectives at the country level and complementing its existing loans and grants. Ensuring complementarity and government ownership remains a key principle guiding IFAD's non-sovereign operations (NSOs).[73]

53. **To date, PSFP has already invested in seven NSOs that are promising leverage and results**. In addition to an investment in the Agribusiness Capital (ABC) Fund, IFAD provided US$26 million to six NSOs through the PSFP, with a total project cost of US$141 million. These investments are expected to benefit about 403,000 people directly and a further 1.4 million people indirectly. There will be a strong focus on empowering women (60 per cent of total beneficiaries) and young people (35 per cent). To effectively manage the complexities associated with private sector operations, IFAD is actively strengthening its in-house capabilities to

[71] 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.
[72] Currently, 79 per cent of ongoing IFAD projects were classified as value chain projects at design. Most of these (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.
[73] NSOs are direct investments in private sector entities without a sovereign government guarantee, hence there is no obligation for the government to repay or bear the financial consequences of non-payment.

ensure it is well equipped to meet demand and effectively mitigate risks while driving positive change through impactful private sector partnerships.

54. **IFAD13 entails a higher ambition to work more and better with the private sector to accelerate impact.** This new approach will be reflected in an updated strategy, to be presented to the Executive Board. In IFAD13, 100 per cent of new COSOPs will have private sector components, and the design of PoLG-financed country programmes will, where possible, integrate entry points and connections with the private sector in a more focused and targeted way. IFAD's engagement with the private sector is implemented transparently and selectively. IFAD's new approach will be guided by three principles: (i) fairness and empowerment of small-scale producers and rural poor people, including women and girls and marginalized groups; (ii) focus on local private sector development; and (iii) rigorous due diligence of private sector partners. The approach will provide a pathway to enhance IFAD's capacity and tools in the following three areas:

- **Enabling.** IFAD will work with governments to gradually leverage its public sector investments to create an enabling environment for the private sector. The aim is to increase sustainable and inclusive investments in food systems in rural areas, with clear benefits for, and in partnership with, small-scale producers and rural communities. Examples of public investments that will support this are: 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; 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 and reduce transaction costs for sustainable and inclusive private sector linkages in rural economies.
- **Catalysing.** IFAD will provide targeted support to local and international private sector entities to unlock and crowd in their investments and financial services to benefit local small-scale producers and rural poor people. This will be done through rural finance instruments, funded by sovereign lending and the PSFP.[74] PSFP will offer a broader range of financial instruments including for risk mitigation (guarantees, subordinated debt, risk-sharing, etc.). In doing so, it will provide new tools to share risks, offer attractive financial incentives and create an enabling environment for investment to unlock additional funding for sustainable agriculture, climate-resilient infrastructure and eco-friendly technologies.
- **Assembling.** IFAD13 will support large-scale investment platforms to attract private sector businesses and financiers as co-investors or parallel cofinanciers. A particular focus will be 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 IFAD's solid structuring capability, which will be further strengthened during IFAD13, and a greater role for PSFP instruments (notably first loss, subordinated debt and risk-sharing).

55. **A stronger PSFP will be an important vehicle for increasing private sector investment in IFAD13 (see annex III for further details).** With the goal of scaling up impact, the PSFP will adopt a new funding model. The PSFP will be funded from core as well as borrowed resources, in addition to supplementary funds. This will make financing for the PSFP more predictable and scalable, therefore fostering greater integration with IFAD's sovereign operations. The Private Sector Trust Fund, created in IFAD12, will continue to be used as the

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

platform to channel supplementary resources from donors to the PSFP. These resources will be critical to unlock private sector investment that carry high risks but also opportunities to achieve high impact, particularly for youth employment, women's empowerment and climate adaptation and mitigation.

56. **To realize this ambitious IFAD13 vision, further strengthening of IFAD's private sector governance, organizational arrangements and capacity are necessary.** IFAD13 seeks to scale IFAD private sector engagement significantly to create mutually beneficial partnerships with small-scale producers in rural communities. IFAD has already made significant progress through the early implementation of the PSFP and substantial investments in internal capacity. This includes establishing a dedicated private sector unit and enhancing expertise in areas like value chains and rural finance, while fostering an enabling ecosystem for impactful engagements. By continuing to enhance internal capabilities and aligning sovereign and non-sovereign operations during IFAD13, IFAD will be better equipped to capitalize on private sector opportunities, address challenges in private sector engagement, adhere to MDB standards and best practices, ensure systematic risk assessment and management, and achieve a more significant impact in promoting sustainable rural development.

D. Ensuring inclusivity to leave no one behind

57. **IFAD will raise ambition on gender, youth and nutrition, as well as increasing targets on climate.** Strengthening IFAD's four mainstreaming themes, i.e. environment and climate, gender, youth and nutrition, reinforces IFAD's sustainable impact and focus on leaving no one behind. Targeted actions to overcome barriers faced by the rural poor and other vulnerable rural people are critical for transforming rural economies and creating lasting change. IFAD will leverage its strong track record and experience, as well as well-defined policies and strategies, to guide its mainstreaming efforts and manage the added complexity of its ambitions. With increased human resources capacity and better integrated financing instruments, IFAD country teams will prioritize and tailor mainstreaming areas based on the context, while also managing additional complexity.

58. **An inclusive localized participatory approach underpins the IFAD13 business model.** As a people-centred organization, IFAD has extensive experience engaging with key partners including farmers' organizations (FOs), Indigenous Peoples' and youth organizations and other community-based and civil society organizations, including women-led organizations. An IOE evaluation synthesis on building partnerships for increased development effectiveness found that IFAD's strategic partnerships with CSOs, FOs and Indigenous Peoples' organizations were effective in facilitating policy influence, coordination and cooperation at country level. Building on this evaluative evidence, in developing its IFAD13 proposals, the Fund further increased its engagement with FOs, Indigenous Peoples and youth, through the Farmers' Forum, Indigenous Peoples' Forum and IFAD's Grassroots Youth Alliance, respectively. Box 3 presents the recommendations that emerged from these discussions. Actions in response to the recommendations have been included in the IFAD13 commitment matrix.

Box 3
Engagement with key partners

IFAD's partnership with farmers' organizations, Indigenous Peoples and youth

Indigenous Peoples, FOs and youth are important strategic partners for IFAD to deliver on its mission. Indigenous Peoples are custodians of knowledge, protect biodiversity, safeguard conservation and wildlife, and are leaders in the fight against climate change. FOs empower farmers, enhance market access and participation, and act as catalysts for positive change in rural areas, driving agricultural innovation and adoption of sustainable practices. Rural youth are the future of their communities and have the potential to lead on resilient and inclusive food system transformation that ensures that rural communities and economies flourish, with interesting new jobs and income opportunities for their generation and future generations to come.

An informal engagement was held with the Steering Committee of the Farmers' Forum, the Global Steering Committee of the Indigenous Peoples' Forum at IFAD, and members of IFAD's Grassroots Youth Alliance on the priorities and focus of IFAD13. At the event, representatives shared their experiences of working with IFAD and made key recommendations to further strengthen their partnership with IFAD.

Recommendations

A common priority for the three stakeholders is the need for predictable and increased support from IFAD to strengthen their capacity and participation in policy and decision-making processes related to them, and in project design and implementation. Other specific feedback includes:

- For **Indigenous Peoples**: implementation of the Update on IFAD's Policy on Engagement with Indigenous Peoples, approved by the Executive Board in December 2022,[75] in particular: (i) observer status at the Executive Board; (ii) engagement of Indigenous experts in project design and supervision processes; (iii) securing funding for the Indigenous Peoples Assistance Facility; and (iv) operationalization of the target of reaching 11 million Indigenous Peoples through IFAD's investment projects by 2032.
- For **youth:** access to capacity-building, training and resources to ensure that they can engage in consultations at national, subnational, regional and global levels and build ownership of development processes.
- For **farmers' organizations:** greater access to IFAD's financial instruments and involvement in IFAD's governance. In addition, FOs highlighted the importance of tackling short- and long-term interconnected challenges that are impacting their livelihoods and of leveraging both new and traditional knowledge for innovation.

59. **Over previous replenishment cycles, IFAD has significantly strengthened its focus on mainstreaming themes.** IFAD12 marked a turning point: quality ratings were introduced to measure performance at project design, implementation and completion. Mainstreaming targets were increased for all themes. IFAD focused on the interconnectedness and synergies across mainstreaming themes to ensure that related benefits reach IFAD's target groups. It sought to further mainstream biodiversity, including agrobiodiversity, in its operations, and to strengthen engagement with Indigenous Peoples and persons with disabilities.

60. **Building on these experiences, Member States have underlined the need to further consolidate and strengthen mainstreaming during IFAD13.** IFAD will continue increasing the focus on mainstreaming priorities within country programmes, while fostering interconnectivity among themes and focusing on the nexus between mainstreaming themes and the three challenges of fragility, climate and private sector engagement that IFAD13 seeks to address (box 4), optimally leveraging the tools and financing at its disposal.

61. **IFAD remains committed to its stepped-up engagement on gender equality and women's empowerment at scale.** As noted in the IFAD Policy on Gender Equality and Women's Empowerment and the gender action plan 2019-2025, IFAD will continue to pursue a twin-track approach for gender equality and women's empowerment. Gender equality will continue to be mainstreamed in 100 per cent of country strategies and IFAD-funded projects as the minimum standard. In addition, IFAD will continue to pursue ambitious approaches to address both the formal and the informal structural constraints on gender equality and challenge the unequal distribution of resources and allocation of duties in pursuit of gender equality. This will be done by specifically addressing social norms, practices, attitudes, beliefs and value systems that perpetuate gender inequality and women and girls' disempowerment in at least 35 per cent of new projects at design, aiming to

[75] IFAD, 2022. IFAD Policy on Engagement with Indigenous Peoples: 2022 Update.

achieve increased impact towards transformative outcomes for gender equality and women's empowerment. To better track the impact of the Fund's work on gender and women's empowerment, IFAD is also introducing an impact-level indicator on women's empowerment in its Results Management Framework (RMF) for the first time.

Box 4
Integrating an inclusivity lens across IFAD13 priority areas

IFAD's mainstreaming objectives are interlinked with the IFAD13 priority areas:

Fragile contexts

In contexts of fragility, conflict and shocks can have severe impacts on the environment, biodiversity and natural resources. Women and youth are more vulnerable and exposed to the consequences of fragility, including the threat of violence and restricted opportunities. Indigenous Peoples can be involved in conflicts over land use and rights. Persons with disabilities are often forgotten or excluded from support or suffer from weak public service provision. Safe and nutritious food may become unavailable and access to food can be disrupted. In these contexts, IFAD's focus on women, youth and social inclusion, as well as nutrition, is extremely important and can yield positive effects on fragility drivers such as exclusion, poverty, mismanagement of resources, and climate-related shocks. IFAD's COSOPs and operations take account of the connections between fragility, environment, climate, women and nutrition, and focus on maximizing synergies to foster resilient livelihoods.

Climate and biodiversity

Climate change and biodiversity loss have a direct impact on agricultural productivity by reducing plant species diversity, which in turn lowers crop yields and quality and limits the availability of nutritious food. Moreover, climate change disproportionately affects women, exacerbating the existing challenges of constrained resource access and gender-based power dynamics. Land degradation, climate-related disasters and resource scarcity intensify competition for limited opportunities, hindering youth from accessing agricultural inputs and engagement. At the same time, women, youth and Indigenous Peoples are pivotal in developing climate mitigation and adaptation strategies that ensure equitable solutions. Indigenous Peoples also play a pivotal role in protecting biodiversity, with 80 per cent of the planet's remaining biodiversity located in Indigenous Peoples' land. Nutrition can also be an entry point for IFAD to drive crop diversification, expanding the range of plant species and promoting sustainable agricultural practices, such as agroecology.

Private sector

In its engagement with the private sector, IFAD will focus on addressing existing challenges, while leveraging opportunities for greater engagement to ensure inclusivity. Current gender norms are limiting women's participation in the private sector, skills mismatches and lack of investment restrict youth employment, and limited concern for nutrition on the part of both producers and consumers aggravates nutrition challenges. Through its mainstreaming approach focused on addressing structural constraints, providing capacity-building, promoting inclusive partnerships, and ensuring participation of community-based organizations and stakeholders, IFAD can harness private sector resources and expertise to drive positive impacts for women's economic empowerment, youth employment, and improved nutrition and diets.

62. **IFAD's impact assessments have identified nutrition as an area requiring continued attention.** A minimum of 60 per cent of new projects in IFAD13 will be nutrition-sensitive, adding to the total active portfolio of projects with a nutrition focus. IFAD will also strengthen its nutrition offer, with more differentiated targeting of actions for vulnerable rural populations and strengthened focus on nutrition education and social behavioural change communication. For example, the less vulnerable could receive nutrition education and social and behavioural change communication interventions, while the most vulnerable could benefit from this as well as a broader package of interventions such as homestead gardens, grants, income-generating activities and water infrastructure. Furthermore, IFAD is investing in strengthening capacities of staff and implementing partners on nutrition-sensitive agriculture through dedicated training, technical support and other capacity-building efforts and is working closely with RBAs and other partners to strengthen vulnerability analysis and nutrition-related targeting. IFAD will also incorporate a broader measure of impact on food security into the RMF for the first time, based on the Food Insecurity Experience Scale,[76] alongside the measurement of impact on nutrition specifically, based on changes in dietary diversity for which behavioural change is particularly important.

[76] The Food Insecurity Experience Scale is an experience-based food security scale used to produce a measure of access to food at different levels of severity that can be compared across contexts. It relies on data obtained by asking people, directly in surveys, about the occurrence of conditions and behaviours that are known to reflect constrained access to food. For further information, see the State of Food Security and Nutrition in the World 2023.

63. **IFAD recognizes the nexus 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, which build on the untapped potential of sustainable use and conservation of biodiversity. IFAD will explore, in collaboration with partners, approaches to achieve sustainable impact on gender equality and women's empowerment that also integrate nutrition outcomes.

64. **IFAD recognizes the importance of school feeding for nutrition, health and children's education.** Investing in school feeding programmes can be a powerful lever towards achieving several SDGs, by combating hunger and malnutrition, supporting local farmers and employment opportunities, enhancing children's health and well-being, and strengthening access to education and school retention for all children, especially girls. IFAD is already supporting school-feeding-related programmes in 19 countries and is also involved in field-level collaboration with FAO and WFP in SSTC for SDG 2, which focuses directly on the potential of national home-grown school meals programmes to transform local food systems. IFAD will seek opportunities to do more in IFAD13 in relation to linking local production to school food supply. Such interventions can have multiple benefits for poor rural households, facilitating food and nutrition security, promoting a healthy diet, preventing early marriage and gender-based violence, and supporting inclusive procurement and value chains, and reduction of food loss and waste.

65. **IFAD13 will continue to strengthen and scale its flagship agribusiness hub model for engaging youth in rural areas.** 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 (boxes 5 and 6), while building more resilient rural economies.

66. **IFAD will expand its youth-related investments to meet growing demand.** In addition to ensuring that 60 per cent of new projects are youth-sensitive[77] and prioritize youth and youth employment in IFAD13, and augmenting the focus of the overall active portfolio on youth, IFAD will specifically invest in digitization, renewable energies, and green skills and technologies, including those emerging alongside restoration and conservation efforts, and in niche value chains, which can also support agrobiodiversity. Additionally, IFAD will intensify engagement with youth organizations including under initiatives such as the Grassroots Youth Alliance, which will be scaled up at the country and regional levels.

Box 5
Optimizing home gardens for better nutrition

Experiences from projects in Djibouti and India, where the surface area of home gardens is approximatively 10 m^2, 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 protein.

[77] IFAD's Rural Youth Action Plan 2019-2021 defines youth-sensitive projects as projects that (i) describe youth and their context-based challenges and opportunities in the project design analysis; (ii) inform a targeting strategy that explicitly targets youth with concrete objectives and activities to achieve impact in priority areas, expressed as part of the project's theory of change, approach and results framework; and (iii) allocate resources to deliver activities targeting youth. In IFAD12, this definition was further updated to require youth-sensitive projects to embed a specific outcome indicator on employment: **CI 2.2.1: Persons with new jobs/employment opportunities.**

Box 6
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 programme (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: (i) start-up and existing agribusinesses require quality technical advice as well as continued mentorship for sustained business establishment and growth; (ii) establishment of long-term networks is crucial in fostering youth employment; and (iii) capacity-building interventions, implemented in close collaboration with the private sector, are a requisite.

67. **IFAD will further engage with Indigenous Peoples as partners.** In line with its updated Policy on Engagement with Indigenous Peoples (2022), IFAD will continue to ensure Indigenous Peoples are empowered to enhance their livelihoods, food and nutrition security, and resilience to climate and other shocks. During IFAD13, IFAD will aim to develop 10 new projects with a significant focus on Indigenous Peoples, following the principles of the policy, including on free, prior and informed consent, and seeking to engage Indigenous experts in design and supervision processes. In addition, IFAD will continue to support the Indigenous Peoples' Forum at IFAD and the Indigenous Peoples Assistance Facility, which finances small projects fostering self-driven development to enable Indigenous communities to find solutions to the challenges they face.

68. **IFAD will further mainstream the inclusion of persons with disabilities.** IFAD's Disability Inclusion Strategy 2022-2027, approved in 2022, will provide the basis for disability inclusion across its work. As in the case of gender equality and women's empowerment, IFAD has committed to further mainstream its work on disability. Hence, in line with the strategy, IFAD will gradually mainstream disability inclusion throughout its entire portfolio, and complement this approach with targeted interventions for persons with disabilities. IFAD has committed to designing at least five projects that include persons with disabilities as a priority target group between 2022 and 2024. In addition, during IFAD13, at least five new projects will be designed targeting persons with disabilities as a priority group. In this way the portfolio of projects focusing on persons with disabilities will gradually be expanded.

69. **IFAD's revised targeting policy, approved by the Executive Board in 2023, will underpin IFAD's approach to ensuring inclusion in order to leave no one behind.**[78] In line with the revised targeting policy, which anchors the definition of IFAD's target group at the intersection of multiple drivers of poverty, IFAD will adopt a people-centred approach recognizing and addressing the heterogeneity of needs and priorities that result from the multiple and intersecting drivers of poverty, vulnerability and exclusion, which in itself also entrenches inequalities in access to and control over resources and opportunities. These include age, gender, disability, ethnicity, policies and social and cultural norms, and issues such as land tenure and access to resources. People who face multiple and intersecting inequalities are more likely to be left behind.

IV. Delivering impact through integrated country programmes

70. **Country programme approaches are central for delivering in IFAD13.** A country programme approach allows IFAD to support countries in meeting their most pressing challenges related to food insecurity, rural poverty, climate change and **fragility**. It builds upon IFAD's evolution towards a country-level programmatic model that supports countries' efforts to end rural poverty and hunger by 2030. Through a series of recent reforms, IFAD is enhancing its portfolio management

[78] EB 2023/138/R.3.

and diversifying its country offer. This section provides an overview of how IFAD will consolidate its country programmatic approach during IFAD13.

A. An integrated country programme

71. **IFAD has progressively offered countries an expanded country toolkit, responding to the evolving needs of rural poor people.** Regular sovereign loans and grants, based on core replenishment resources and borrowing, are IFAD's primary means of engagement with countries. They are complemented by actions and tools to achieve greater impact. This includes the implementation of multiphase programmatic approaches, regional lending operations, results-based lending, joint programming with other development partners, reimbursable technical assistance and other supplementary-funded initiatives. In IFAD12, two new instruments were introduced: the PSFP to catalyse private funding for rural micro, small and medium-sized enterprises and ASAP+ to scale efforts on climate. COSOPs remained the main tool for ensuring coordination and complementarity across these instruments at the country level. Additional steps are needed in IFAD13 to strengthen IFAD's country programme offer.

72. **First, IFAD will continue to anchor COSOPs and country strategy notes (CSNs) in national priorities.** Integrated country programmes, delivered through COSOPs and CSNs, provide the framework for IFAD's engagement at country level. In IFAD13, country programmes will remain tailored to country-owned priorities and context and respond to country needs and demand. In doing so, IFAD will leverage its comparative advantage in supporting national food systems transformation through investment in rural communities and in rural transformation. COSOPs and CSNs will be anchored in borrowers' national visions, national food system pathways and relevant sector strategies, including NDCs, national adaptation plans, and NBSAPs.

73. **Second, IFAD will strongly leverage existing instruments.** During 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. IFAD will aim to use multiphase programmatic approaches in at least 10 per cent of new designs. Experience shows that **combining** projects into larger operations over several phases fosters partnerships and promotes government ownership, while remaining agile (see box 7). This will enable IFAD to consolidate ongoing investments by the end of IFAD13, continuing the trend towards fewer but larger investments and simplified project architecture, while focusing on client-driven interventions. In response to growing demand from governments, IFAD will explore expanding its use of results-based lending, in close partnership with other IFIs.[79] This will include using disbursement-linked indicators to match financing with results. By leveraging these opportunities, IFAD will seek to introduce IFAD13 priorities and a stronger focus on the needs of small-scale farmers and vulnerable rural communities within much larger development initiatives.

[79] There are currently four approved pilot projects in the early phases of implementation: two in China, one in Cuba and one in 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.

Box 7
Benefits of multiphase programmatic approaches: An example from IFAD's support in Ethiopia

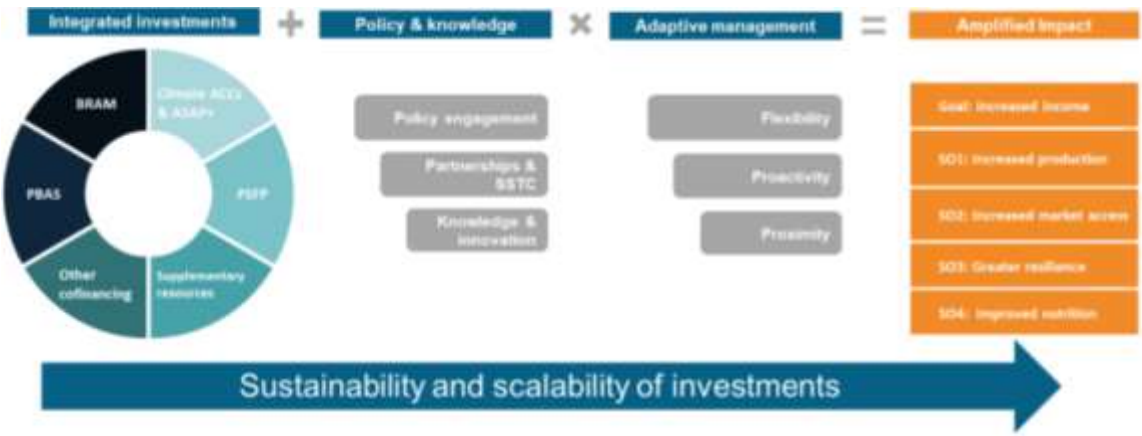
The Rural Financial Intermediation Programme (RUFIP) is currently in its third phase (2020–2026). RUFIP I (2003–2010) and RUFIP II (2011–2020) played a pivotal role in supporting the expansion and outreach of microfinance institutions (MFIs) and rural savings and credit cooperatives (RUSACCOs). There 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 the financial inclusion landscape.

74. **Third, IFAD will respond to the growing demand to increase SSTC support for enhancing rural livelihoods.** The role of SSTC as a tool in IFAD's country programmes will be emphasized, guided by the 2022 SSTC strategy.[80] Special attention will be given to strengthening the decentralized SSTC and Knowledge Centres to develop customized regional SSTC strategies that capitalize on existing assets and address specific regional needs, and to engaging with upper-middle-income countries (UMICs) to mobilize their knowledge and expertise. SSTC initiatives will be incorporated in at least 25 investment projects and a strong emphasis will be placed on monitoring and evaluation of SSTC activities across IFAD's PoLG. IFAD will leverage SSTC as an instrument to address the priority areas of IFAD13, including the specific challenges of fragile situations, climate change vulnerability and private sector engagement.

75. **Fourth, there will be a greater focus on ensuring synergies between the various sources of finance for IFAD's interventions.** All new COSOPs will identify private sector engagement opportunities. Early and continuous engagement with the private sector will be prioritized. IFAD will also maintain an updated bankable pipeline of NSOs. Priority will be given to blending multiple sources of finance into the design of IFAD's country programmes, including climate finance. In this context, the newly introduced ACCs will provide a valuable source of additional predictable climate finance complementing PBAS allocations, supplementary climate finance through ASAP+ and global climate funds, while also boosting IFAD's overall financial capacity.

Figure 3
IFAD13 country programmes – alignment and complementarities



80 EB 2021/134/R.8.

B. Adaptive management

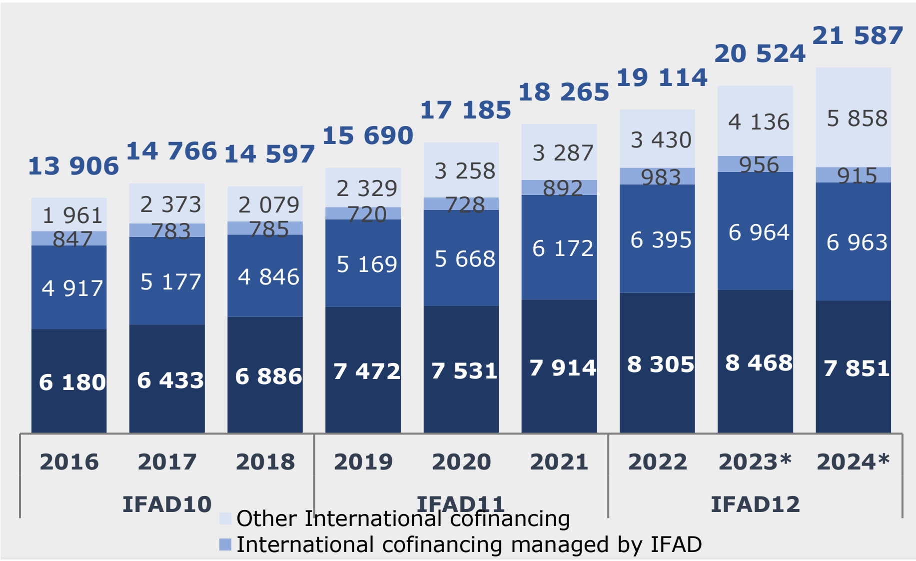
76. **Adaptive management is crucial for a more decentralized IFAD as it allows the organization to respond effectively to uncertainties and dynamic challenges in the rural communities of developing countries.** It fosters learning and continuous improvement, tailoring interventions to local contexts and needs, ensuring flexibility and resilience in the face of crises, promoting stakeholder engagement, encouraging innovation, and maintaining a results-oriented approach. By strengthening adaptive management in IFAD13, IFAD can stay responsive, resilient and effective in its mission to alleviate rural poverty and promote sustainable development, driving positive and lasting change in rural areas.

77. **Operational flexibility within country programmes is critical to support client countries in responding to crises.** This entails ensuring that IFAD investments are sufficiently flexible and agile to respond quickly to the impact of shocks and that decentralized offices and staff have the necessary capacity and tools to better respond to client country needs.

78. **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 and strengthened partnerships with IFIs and other development partners, evident through the higher levels of mobilized cofinancing.

79. **IFAD has demonstrated its ability to learn, respond and evolve quickly and efficiently.** Over the past replenishment cycles, IFAD has been managing an increasingly large active PoW, driven by both growing IFAD financing and growing cofinancing (see figure 4). Nonetheless, IFAD was able to increase its proactivity[81] from 47 per cent in 2018 to 80 per cent in 2022, which confirms that adjustments to its delivery approach are on the right track. IFAD's restructuring policy has been a key enabler of this.[82] During IFAD13, further actions are needed to continue making progress in IFAD's adaptive management approach.

Figure 4
Active portfolio
(Millions of United States dollars)



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

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[81] IFAD's proactivity index measures the percentage of ongoing projects rated as problem projects in previous approved performance ratings that have been upgraded, restructured, completed/closed, cancelled or suspended in the most recent approved performance ratings.
[82] EB 2018/125/R.37/Rev.1.

80. **During IFAD13, there will be a focus on programme delivery 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.

81. **IFAD will further enhance its project procurement processes.** 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. IFAD has also strengthened cooperation on procurement with other MDBs: for example, in 2022, IFAD and the Asian Development Bank began collaborating in the development of procurement processes that are better aligned and support innovation, and in 2023 IFAD and the World Bank entered into a mutual reliance agreement in public sector project procurement, facilitating shared procurement practices in cofinanced sovereign operations.

82. **Systems and processes will be upgraded to better 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. This will support targeting, risk assessments, monitoring and evaluation, and inform strategies and operational approaches through proactive management for improved outcomes. These tools inform IFAD's approach to sustainability and scalability (as described below).

83. **Knowledge management will be a key focus of IFAD13, as it is essential to IFAD's business model**. Generating cutting-edge knowledge and using it effectively can help IFAD to improve its performance and visibility, enhance its credibility and influence as a trusted partner, achieve optimal resource allocation and use, and improve projects and data- and evidence-driven policy engagement. To achieve this, IFAD will strengthen its systems for learning and results monitoring, and make more efficient use of the knowledge of staff and partners. IFAD will also continue to support agricultural research and strengthen its ongoing collaboration with the CGIAR. Furthermore, IFAD will also update its Knowledge Management Strategy in IFAD13, with a strong focus on knowledge utilization.

84. **IFAD's closer proximity to client countries will accelerate development results.** The benefits of the Fund's decentralization 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 improved client satisfaction. The latter will continue to be assessed through IFAD's annual stakeholder surveys, which recently confirmed that IFAD is perceived as an important partner for its knowledge management capacity, sustainability and scaling up, as well as its overall relevance.[83]

C. Enhancing the sustainability and scalability of investments

85. **Sustainability and scalability[84] of results lie at the heart of IFAD's mandate to uplift rural communities and eradicate poverty.** By promoting climate-resilient, environmentally friendly, socially inclusive practices, and supporting diverse and profitable livelihood opportunities and enterprises, IFAD improves the resilience of communities, and ensures that its interventions leave a lasting positive impact on the lives of beneficiaries and are more likely to be scaled. IFAD employs several additional strategies and approaches to ensure the sustainability of its

[83] IFAD, 2023. Stakeholder Survey: Summary Report.
[84] Scaling up is part of a broader dynamic and evolving process that runs throughout – and transcends – the project cycle.

impact. These include participatory approaches so that interventions are tailored to the local context and have high levels of community ownership; individual and institutional capacity-building; and monitoring and evaluation with rigorous data collection and analysis to identify what works and what needs improvement. In this way, IFAD can adapt its strategies and interventions and ensure that they remain effective and sustainable over time. By sharing successful experiences and lessons learned, including with external partners, IFAD promotes the widespread adoption of sustainable practices and their scaling up by partners and governments.

86. **Building on the recent improvement in ratings in these areas, IFAD13 will continue to expand efforts to achieve greater and more lasting positive impact on rural communities.** In IFAD12, the Fund developed a sustainability action plan and updated its scaling approach. While implementing these in IFAD13, IFAD will focus on three key areas: (i) country-level policy engagement; (ii) partnerships; and (iii) innovation.

Country-level policy engagement

87. **IFAD actively engages with governments and policymakers to influence policies that support sustainable development and poverty reduction.** By advocating for conducive policy environments, IFAD helps create an enabling context for sustainable practices to flourish and be integrated into broader national development strategies.

88. **The Fund will continue to leverage country-level policy engagement (CLPE) as a tool to scale impact and enhance sustainability.** Building on IFAD12 commitments, CLPE will continue to serve three essential purposes during IFAD13: (i) enhancing the participation of smallholders and rural people and their organizations in country and regional level policy processes; (ii) increasing the generation and utilization of evidence for policy development and implementation; and (iii) enhancing government capacity in planning, formulating and implementing data- and evidence-based policies.

89. **Guided by COSOPs, IFAD will work across the policy cycle to increase impact.** In IFAD13, all new investment projects will include country-level policy goals. CLPE activities will be planned in line with opportunities and potential for IFAD’s value added, capacity to develop and use policy-relevant evidence including evidence produced by IFAD and other stakeholders. 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.

Box 8
Snapshot of scaling 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 in Malawi were gathered and transferred to other project management units in Malawi and Zambia through a knowledge management community of practice 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.

Delivering and scaling impact through strategic partnerships

90. **Overcoming current global challenges will require new types of partnerships.** IFAD recognizes that achieving sustainable development in rural areas requires a collaborative approach that goes beyond its own capacities and resources. IFAD13 will prioritize partnerships that maximize results for IFAD’s target group. Building on the IFAD Partnership Framework approved in IFAD11,

IFAD will prioritize the cultivation and expansion of selected partnerships from the local to the global level. Partnerships enable IFAD to tap into local knowledge and insights of communities, while providing agency, access to decision-making and ownership to local partners. They also facilitate the identification of innovative solutions, ensure that interventions are context-specific, and expand IFAD's reach and impact, enabling the Fund to scale projects and initiatives more efficiently.

91. **IFAD will strengthen collaboration with rural civil society organizations.** Partnerships with CSOs, FOs and Indigenous Peoples' organizations will continue to be IFAD's distinguishing feature and will strengthen ownership and accountability. In IFAD13, IFAD will continue to strengthen its engagement mechanisms with these key partners, facilitating country-level engagement in COSOPs and country programmes, implementing free, prior and informed consent in IFAD investments in line with relevant policies, and providing a global platform through joint policy engagement and the Farmers' Forum, the Indigenous Peoples' Forum at IFAD, and the Youth Grassroots Alliance, and strengthening systematic coordination on operational and strategic policies and priorities. Additionally, IFAD will continue to support the empowerment of CSOs to monitor and report on project results, thus strengthening domestic accountability.

92. **Partnerships with other United Nations agencies, in particular the RBAs, will be optimized.** At the country level, this will include more active engagement in United Nations Country Teams, and participation in the development and implementation of the United Nations Sustainable Development Cooperation Frameworks (UNSDCFs). Stronger collaboration between the RBAs is critical as it allows the three organizations to leverage their respective comparative advantages to find effective and lasting solutions, increase efficiency, empower local communities, encourage learning and adaptation, enhance partnerships, attract investment and expand impact. Through a revised memorandum of understanding, FAO, WFP, and IFAD intend to step up their collaboration. IFAD will work closely with the other RBAs to integrate food systems approaches into UNSDCFs, building on policy agreements reached within the CFS. Successful examples of joint RBA resilience programmes (e.g. in the Democratic Republic of the Congo, Guatemala, Kenya, Niger and Somalia) demonstrate the potential to scale collaboration in this area. In addition, IFAD has catalysed efforts to establish an RBA Innovation Team to coordinate joint efforts in innovation, with numerous initiatives already undertaken together with the WFP and FAO innovation teams. Together the RBAs can create comprehensive resilience-building strategies that encompass climate-resilient agriculture, access to finance and markets, social protection, disaster risk reduction, and nutrition-sensitive interventions.

93. **Strategic partnerships with other IFIs[85] will also be essential to assemble and deliver finance for impact and to promote scaling.** In practical terms, these partnerships will contribute to moving to scale by leveraging large-scale development financing, increasing the exchange of knowledge, experience, data and analysis on the IFAD13 priority areas, and strengthening collaboration to advance shared agendas within respective mandates to build inclusive rural economies and transform food systems. In this regard, IFAD will continue to develop its new partnerships with IFIs/development finance institutions such as EIB (see box 9), while strengthening existing ones – for instance with the World Bank, Asian Development Bank and African Development Bank – through increased joint analytical work and the proactive identification of strategic co-investment opportunities, including in testing, replicating and scaling innovation, both bilaterally and through working groups and networks of IFIs, United Nations agencies and other partners. IFAD will also expand its partnerships with subregional and national development banks. It will continue leading the

[85] Including the World Bank, African Development Bank, Asian Development Bank, Asian Infrastructure Investment Bank, European Investment Bank (EIB), Islamic Development Bank and Inter-American Development Bank.

agriculture and rural development cluster of the Public Development Bank initiative, which mobilizes sustainable and green financing with the aim of making innovative financial service products, methodologies and digital solutions available to the various clients within food systems. In addition, IFAD leads a platform for green and inclusive food systems within the Finance in Common Summit process, which is key for the mobilization of public and private finance.

Box 9
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 loan of U$53.3 million and a grant of U$1.2 million from IFAD, a loan of US$57.6 million from the EIB and a contribution of US$12.41 million from Cambodia.

The SAAMBAT project aims to employ at least 4,500 rural youth, develop 500 small and medium-sized enterprises 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.

94. **IFAD's role in the follow-up to the 2021 United Nations Food Systems Summit (UNFSS) will continue to be prominent, following UNFSS+2.** IFAD has an important role in the Food Systems Coordination Hub and leads the financing agenda on food systems transformation, together with the World Bank. IFAD, with the other RBAs, will continue supporting the Food Systems Hub and will continue convening and guiding action at the global, regional, national and local levels in line with the secretary-general's call to action for accelerated food systems transformation. At country level, IFAD will ensure that 100 per cent of new COSOPs are aligned with nationally adopted food system transformation pathways where these exist. In addition, IFAD will continue to co-lead the Decent Work for Equitable Food Systems Coalition, together with the International Labour Organization and CARE International.

95. **IFAD13 will significantly step up engagement with the private sector.** The Addis Ababa Action Agenda highlighted the important contribution the private sector can make to financing sustainable development. This was reiterated during discussions at the June 2023 Paris Summit for a New Global Financing Pact, where global leaders agreed that fighting poverty and climate change crucially depends on scaling up private capital.[86] During IFAD13, IFAD will continue to work with private sector partners to facilitate or to crowd in sustainable and inclusive private investments in rural areas, both indirectly as cofinancing for its operations and directly, by mobilizing private sector resources as part of IFAD's financial model. IFAD already took initial steps in IFAD12 by mobilizing over US$100 million in NSO cofinancing and local private sector financing catalysed through IFAD's sovereign investments. More will be done in IFAD13 to scale private sector financing for small-scale farmers and rural people.

Scaling innovation

96. **Innovation is crucial for IFAD.** By embracing innovation, IFAD can continuously improve its approach to transforming food systems, addressing complex challenges with creative and contextually relevant solutions. Innovations streamline processes, optimize resource utilization, and empower rural communities to be active agents of change. Furthermore, innovation enhances IFAD's ability to adapt to changing circumstances and strengthens its position as a leading international development organization, inspiring positive change on a global scale while driving sustainable and impactful outcomes in rural areas.

97. **IFAD13 will focus more on scaling innovation.** At country level, IFAD will continue to test innovations, notably through supplementary resources and regular grants, following the adoption of the revised grants policy in IFAD12. The focus will be on: (i) building on existing use of geospatial and other digital technologies to

[86] Summit for a New Global Financing Pact, Steering Committee, Summary by the French Co-chair.

improve geographic and beneficiary targeting, particularly in fragile contexts; (ii) piloting and testing product innovations that can be integrated and taken to scale within IFAD's investment portfolio; and (iii) enhancing target group access to market information and services. In this regard, IFAD will aim to ensure that at least 20 new investment projects integrate specific innovative approaches, including ICT4D or digital agriculture technologies.

98. **At the institutional level, in IFAD13, the Fund will continue to embed an innovation culture** that encourages efforts to develop novel solutions and approaches for inclusive food systems transformation (see example in box 10). It will further strengthen the IFAD Innovation Network, which provides a space for sharing ideas and best practices in innovation. IFAD will provide capacity-building for staff on the use and adoption of the United Nations digital innovation toolkit,[87] in partnership with the United Nations System Staff College, the United Nations 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,[88] identified in the Secretary-General's Common Agenda.

Box 10
Investing in innovations for climate action

With pilot funding through IFAD's Innovation Challenge, the climate risk project with DiGi International 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 (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.

V. Strengthening organizational effectiveness and efficiency

99. **IFAD has invested significantly in enhancing its organizational architecture and capacity.** Beginning in 2017, it undertook the Operational Excellence for Results (OpEx) organizational reform and restructuring to accelerate decentralization. The People, Processes and Technology Plan (PPTP),[89] which ran from 2020 to 2022, equipped IFAD with appropriate human resource capacity and streamlined corporate processes and technological solutions to deliver effective development results. The new Strategy on Diversity, Equity and Inclusion (DEI)[90] aims to enhance IFAD's workplace culture, alongside other measures. IFAD has also taken steps to improve medium-term budget planning and prioritization.

100. **These actions have built on several external reviews and have strengthened IFAD's enabling institutional environment.** This has resulted in IFAD significantly increasing its human resource capacity (185 additional staff members – an increase of 30 per cent since 2017), improving the efficiency of its business processes and becoming a more fit-for-purpose decentralized organization. Over the past year, there have been opportunities to take stock of

[87] The toolkit was designed around five foundational elements that are critical for enabling, fostering and mainstreaming innovation: Strategy, Partnerships, Architecture, Culture, and Evaluation (SPACE).
[88] UN 2.0, Quintet of Change.
[89] For the latest annual update on PPTP, see here.
[90] EB 2021/134/R.9.

recent reforms, for example through the findings of the 2022 corporate-level evaluation on IFAD’s decentralization experience, biennial Global Staff Surveys, frequent updates on PPTP and ongoing consultations on budget.

101. **Recent external assessments have recognized the benefits of these reforms, highlighting IFAD's commendable strengths while also indicating areas for development.** Rooted in a well-defined niche role, IFAD demonstrates a strong commitment to serving small-scale farmers and rural communities, who are often overlooked by larger financial institutions. A robust results culture and transparent RMF ensure accountability and accurate reporting of achievements. Its leadership in supporting farmers to adapt to climate change strengthens its mission of sustainable rural development. These factors have been enhanced by recent investments and have underpinned several positive external assessments over recent years: in 2021, IFAD was internationally recognized as one of the most effective and efficient international development organizations.[91] However, these assessments have also highlighted areas for improvement, including lessons from recent reform processes, which will be targeted during the remainder of IFAD12 and through IFAD13.

102. **Enhancing organizational effectiveness and efficiency is not just a strategic imperative; it is the pathway to achieving greater impact.** The successful delivery of IFAD13’s ambitious US$10 billion PoW is dependent on IFAD’s organizational capacity and effectiveness. IFAD must continually strive to improve its organizational effectiveness and efficiency. Building on lessons learned and findings from external assessments, and IOE and Management’s own data and analysis, the IFAD13 period will target areas for improvement including: (i) enhancing sustainability of project benefits through country system strengthening and optimal resource utilization; (ii) addressing capacity constraints in private sector operations to maximize impact and meet growing demand; and (iii) aligning budgets and human resource allocation with strategic priorities. The following paragraphs outline actionable steps that will enable IFAD to optimize its operations, enhance transparency, and deliver even greater impact to those it serves in IFAD13.

103. **IFAD will develop a new IFAD Strategic Framework for 2025-2031.** As IFAD aims to double its impact by 2030, the strategic framework serves as a crucial roadmap to align its actions and initiatives with the ever-changing global landscape. Building on the directions agreed during IFAD13, and by setting clear objectives, priorities and targets, the new framework will enable IFAD to focus its efforts and allocate resources more effectively. It will also provide an opportunity to integrate innovative approaches, leverage emerging technologies and foster stronger partnerships with governments, private sector actors and development agencies.

104. **IFAD will increase the share of its administrative budget dedicated to country programme delivery.** IFAD’s administrative costs will be critically assessed to ensure that operations are sufficiently resourced. In line with recommendations from the corporate-level evaluation on decentralization and the findings of the 2023 MOPAN assessment, the Fund will ensure that a higher share of IFAD’s administrative budget is allocated to country programmes in line with the IFAD13 priorities. Programme delivery will be the highest corporate priority in the allocation of scarce resources. To this end, IFAD will improve its methodologies and systems to better capture, track and measure administrative and operational costs. This, together with a revamped planning and strategic prioritization process, will support efforts to ensure alignment of budget to priorities and results.

105. **Decentralization is a continuing priority.** IFAD's decentralization efforts have already shown promising results, empowering field offices to engage directly with

[91] See footnote 16.

rural communities and implement targeted initiatives, as evident from improved country-level engagement ratings in the annual stakeholder survey, COSOP completion reviews and programme evaluations undertaken by IOE. To further strengthen this approach, IFAD must continue investing in the capacity-building of its regional and country offices. This will enhance their ability to customize solutions to local challenges, ensure efficient project implementation, and foster stronger partnerships with governments and stakeholders at the grassroots level. Currently, 43.6 per cent of positions are based in 43 IFAD country offices.[92] In IFAD13, Management will continuously reassess and adjust the roll-out of Decentralization 2.0 (D2.0), based on the recommendations of the corporate-level evaluation on decentralization, the findings of the 2023 MOPAN assessment, lessons from implementation, and guidance from the Executive Board.

106. **Leveraging technology and innovation will allow IFAD to maximize results.** To streamline processes and boost efficiency, IFAD will continue embracing technology and innovative solutions. The recently developed Omnidata platform for data and analytics has provided IFAD with a means of experimenting and securely developing customized machine learning and artificial intelligence solutions. These technologies make it possible to build new types of use cases, complete tasks currently not undertaken due to the time required or complexity involved, and further enable IFAD to make data-driven decisions and enhance its responsiveness to emerging challenges.

107. **IFAD13 will prioritize a positive workplace culture and staff welfare to enhance organizational effectiveness.** Workplace culture directly influences IFAD’s ability to achieve its mission of eradicating rural poverty and promoting sustainable rural development. This effort is critical to foster a workplace culture that serves staff and the organization well in a rapidly changing environment. An enabling workplace culture requires constant promotion of IFAD’s core values, ensuring diversity and inclusion, and exploring actions to better balance workloads for staff. In IFAD12, to respond to the key staff concern of excessive workload and ensure newly recruited staff can quickly contribute to IFAD operations, action plans were prepared to reduce the vacancy rate, and to ensure a smoother onboarding experience for staff in the field. During IFAD13, Management will continue to prioritize initiatives that foster a supportive, inclusive and empowering environment for IFAD’s workforce, in line with the findings of the 2023 MOPAN assessment. This includes implementing comprehensive well-being programmes, diversity and inclusion training, employee engagement initiatives, transparent communication, recognition of achievements, and staff development and capacity-building. The Fund will also continue to monitor staff engagement and well-being through the staff engagement index, as part of the Global Staff Survey, and through pulse surveys.

108. **The Fund will continue to implement activities to ensure a diversified workforce, which is also equitable and inclusive, in line with the DEI Strategy.** IFAD's commitment to DEI is fundamental in ensuring that its staffing reflects its inclusive mandate. To deepen its impact, IFAD must continue promoting DEI within its own workforce, creating a culture that celebrates diverse perspectives and experiences. 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 (as measured by the percentage of women in international Professional staff positions at P-5 and above, aiming at reaching 40 per cent in 2025 and 50 per cent in 2030); gender parity across all grades (percentage of male and female staff in all

[92] EB 2023/139/R.14.

grades); and representation of List B and C countries among international Professional staff (targeting 52 per cent by 2025 and 60 per cent by 2030).[93]

109. **IFAD will ensure it has appropriate internal capacity to deliver on all dimensions of the IFAD13 business model, including the mainstreaming themes, and the IFAD13 priority areas:**

(i) **Fragility.** IFAD recognizes that to address effectively the complex issues facing rural communities in fragile situations, capacity-building is needed. Through capacity-building initiatives, IFAD will ensure that its staff – and also its partner organizations and local stakeholders – have the knowledge, skills and resources to navigate and respond effectively to the unique challenges faced in fragile environments. Concrete actions will include the set-up of a fragility unit with dedicated experts, complemented by training and knowledge tools.

(ii) **Climate resilience and biodiversity.** As part of its new consolidated strategy on climate, environment and biodiversity, IFAD will ensure that staff have the knowledge and tools necessary to design and implement climate-resilient and biodiversity-friendly interventions. Effective capacity-building of IFAD staff will ensure that climate adaptation and biodiversity considerations are mainstreamed across the PoLG.

(iii) **Private sector.** IFAD has already made progress through the implementation of the PSFP and substantial investments in internal capacity. This included establishing a dedicated private sector unit and enhancing expertise in areas like value chains and rural finance, while fostering an enabling ecosystem for impactful engagements. By strategically integrating internal capabilities and aligning sovereign and non-sovereign operations during IFAD13, IFAD will be better equipped to capitalize on private sector opportunities and address challenges in private sector engagement.

110. **Upskilling and re-skilling play a critical role in IFAD's overall talent management to ensure that the IFAD workforce is fit for the future of the organization.** Staff upskilling and re-skilling needs will be assessed on a continuous basis in the context of performance management, and learning interventions will be planned accordingly. An important focus will be to continue strengthening the operational and technical knowledge and capacity of staff delivering IFAD programmes at country level, including in relation to IFAD13 priority areas such as private sector engagement, and engagement in fragile contexts. This effort will continue through the revamped Operations Academy and the D2.0 field staff upskilling programme.

111. **The Fund will remain strongly committed to fighting sexual harassment/sexual exploitation and abuse (SH/SEA) and to preventing 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[94] and its DEI Strategy.

VI. Assembling and leveraging development finance

112. **IFAD made notable strides in strengthening its financial architecture during IFAD11 and IFAD12.** New and revised policies were introduced to enhance financial sustainability. It also strengthened its internal financial and risk

[93] IFAD, 2023. Progress report on the IFAD Strategy on Diversity, Equity and Inclusion.
[94] EB 2021/132/R.13.

management capacity and created a robust risk framework and risk culture. This resulted in the reaffirmation of its AA+ credit rating in 2021 and 2022, just one notch below the highest credit rating possible. These efforts – combined with the development and recent updating of the Integrated Borrowing Framework (IBF)[95] – have enabled the Fund to diversify its borrowing sources.

113. **IFAD13 continues the evolution of IFAD's financial framework, ensuring universality, while prioritizing the poorest countries, in line with the Agreement Establishing IFAD and the principles of IFAD's Graduation Policy.[96]** The call of the international community to scale financial support to developing countries, without adding to their debt challenges, requires IFAD to make use of an appropriate selection of financial instruments within its PoW (see figure 5). It also means that IFAD must prioritize concessional resources for countries that have the least capacity to absorb debt while continuing to support rural populations elsewhere. To build this expanded PoW, the IFAD13 financial framework is based on three main priorities: (i) increased core funding; (ii) prudent leverage of IFAD's capital; and (iii) increasing cofinancing and supplementary resources.

Figure 5
IFAD13: A financial platform for an expanded PoW

Increased core funding: A prerequisite to expand concessional resources to the poorest countries

114. **Core resources will remain the backbone of IFAD's financial architecture, driven by Member States' replenishment contributions.** In IFAD13, core resources will include core contributions, concessional partner loans (CPLs), ACCs and IFAD's net reflows. Core resources will continue to support LICs and lower-middle-income countries (LMICs). To address the limited debt absorption capacities of LICs and vulnerable LMICs, IFAD13 will continue to preserve a significant level of concessionality[97] (grant element) for the financing from its core

[95] EB 2023/138/R.8.
[96] EB 2021/133/R.5. An update on progress in implementation of IFAD's Graduation Policy (IFAD13/3/INF.2) was submitted to the Members of the IFAD13 Consultation at its third session in accordance with the reporting arrangements agreed in the policy.
[97] With lending terms currently applicable.

resources, and to maximize its concessional support to the poorest countries, within prudential limits that maintain its own financial sustainability.

115. **CPLs, with their significant grant element,**[98] **can be instrumental in further enhancing IFAD's financing capacity.** CPLs form part of IFAD's core resources and can be used to support lending to IFAD's borrowers through concessional loans. In IFAD13, CPLs will remain critical to IFAD's concessional funding, especially given the unsustainable debt situation of many LICs. Building on CPLs' favourable financing conditions in IFAD13, including larger average grant elements compared to IFAD12 (see annex V), IFAD will devote renewed attention to mobilizing CPLs. In addition, CPLs for climate may be considered given the significant integration of climate finance within the IFAD PoLG and the IFAD13 focus on strengthening IFAD's toolkit to mobilize climate finance for small-scale farmers.

Prudently leveraging IFAD's capital to expand its programme of work

116. **For IFAD to provide greater concessional and non-concessional financing to its client base, leveraging IFAD's capital base has been critical.** The success of IFAD's leveraging strategy is therefore highly dependent on preserving and steadily expanding that capital base. This is achieved through IFAD's replenishment exercises and by making sure that IFAD's grant capacity is sustainable based on a certain level of replenishment. This is also a prerequisite to maintain IFAD's financial sustainability, and thus its AA+ credit rating.

117. **During IFAD13, IFAD will continue to leverage private placements and other tools in the existing borrowing toolkit.** In this regard, it is important to recall that different funding sources are not financially interchangeable: grants can only be funded by core contributions whereas concessional loans can be funded by core contributions and concessional borrowing such as CPLs and net reflows. This implies continuing to manage borrowing prudently, maintaining the balance between: (i) demand; (ii) borrowers' debt absorption capacities; and (iii) financial terms of borrowing and onlending. In doing so, IFAD will safeguard its universal mandate, while scaling up its role as an assembler of sustainable development finance to enhance rural livelihoods.

118. **During the remainder of IFAD12 and in IFAD13, Management will continue the strategic discussions with the Executive Board about potentially accessing other borrowing instruments in line with resolution 223/XLIV,**[99] **building on lessons learned and experience gained with private placements.** Management will provide the Executive Board with a detailed assessment of the costs and benefits of borrowing, based on the lessons of current borrowing experience. Management will reflect on the overall financial outlook for IFAD up to 2030, including proposed borrowing instruments that could benefit IFAD and its borrowing Member States by reducing funding risk and increasing predictability of resource mobilization. Management will also consider the G20 recommendations to MDBs to explore ways to optimize their balance sheets to boost lending capacity to those most in need, while maintaining financial sustainability.

119. The expansion of the borrowing toolkit would consider the following instruments, taking into account their respective challenges:

- **Loans in non-CPL form, including loans on less concessional terms provided by sovereign states, supranational or multilateral institutions as provided under the IBF.** IFAD has extensive experience in negotiating loans in non-CPL form.[100] Depending on the terms and conditions, these loans can support countries in all income categories. Such loans bring

[98] Over a maximum period of three years.
[99] GC 44/Resolutions.
[100] Canada, KfW Development Bank, the Agence Française de Développement and EIB.

attractive financing conditions as well as long-lasting partnerships. The main challenge of these loans is their limited and unpredictable availability and their long negotiation time, as well as increasing interest from lenders in thematic earmarking of sovereign loans, which is problematic for IFAD to accept under the current IBF.

- **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. During IFAD13, IFAD will continue to rely on private placement bonds, CPLs and non-CPL loans within the existing borrowing toolkit and will keep the Executive Board informed of progress on funding plan implementation as per the revised IBF.

- **Public issuances.** Public issuance would allow IFAD to access a large segment of capital markets that has significantly more breadth and depth than the private placements market, not only reducing funding risk but also promoting IFAD's name and its mission in global capital markets, especially in the environmental, social and governance (ESG) segment.[101] IFAD's ability to access funding from institutional investors in non-US$/EUR markets could benefit from better establishing IFAD's name as a specialized issuer with strong linkages to SDGs.

Increasing cofinancing and supplementary resources

120. **IFAD's role as an assembler of finance is pivotal in its financial vision.** By leveraging the financial capacity of IFAD's balance sheet, in every replenishment cycle, IFAD can deliver a PoLG significantly greater than the level of Member State contributions. This PoLG then provides a powerful platform to assemble additional cofinancing and supplementary resources, build partnerships and scale impact. This enhances IFAD's ability to strengthen coordination between different development finance partners and other actors investing in rural areas and in food systems.

121. **IFAD can maximize its impact on global food security and nutrition by crowding in and assembling domestic and international cofinancing.** In IFAD13, IFAD will increase its cofinancing target from US$1.5 to US$1.6 of cofinancing for every dollar of IFAD financing. To reach this increased target, IFAD will aim to mobilize additional international cofinancing, increasing the target ratio from 1:0.7 to 1:0.8. This aligns with IFAD's strong commitment to strengthen collaboration with IFIs and other cofinancing partners and drive better system-wide coordination to deliver on global priorities. IFAD will also maintain its ambitious domestic cofinancing target of 1:0.8 despite the challenging economic environment in many countries, as this is a strong signal of country commitment to IFAD operations and increases the potential for domestic scaling up of IFAD-supported investments. It also aligns closely with other important commitments, such as the Comprehensive Africa Agricultural Development Programme, which African governments agreed to support with at least 10 per cent of their national budgets. Scaled-up IFAD financing is crucial to support this target, including grants and highly concessional financing for LICs, LMICs, and those in debt distress.

122. **IFAD will ensure further prioritization and alignment of supplementary resources with IFAD's core programmes.** IFAD's portfolio of supplementary resources has grown significantly over recent years. Partners increasingly turn to

[101] During IFAD13, the Fund will strengthen its financial reporting to ensure application of industry best standards. This is a key element assessed by rating agencies to which IFAD should ensure adequate attention: sound financial statements are the basis of proper financial decisions. Through International Suitability Standards, the accounting and reporting industry is going through a major revolution with the integration of International Financial Reporting Standards with ESG-reporting features, aiming to increase the consistency of reporting on ESG-related matters internationally. IFAD will ensure adherence to these changes of global financial practices including upgrades of its enterprise resource planning and financial reporting procedures.

IFAD to manage and deploy resources dedicated to building resilient food systems and supporting rural communities. This is a testament to IFAD's strong financial management capacity and robust business processes, as further demonstrated by its strong credit rating, and to IFAD's comparative advantage and the value addition of synergies with IFAD's own operations. IFAD will continue to mobilize supplementary resources during IFAD13, while maintaining a clear focus on the IFAD13 priorities and pursuing opportunities to create multi-donor initiatives where possible. SSTC will be a particular area of focus, as supplementary resources can complement SSTC initiatives in investment projects funded by IFAD's sovereign lending, with additional grant financing for sharing knowledge, innovation and policy engagement.

A. IFAD13 financial scenarios and impact

123. **The IFAD13 scenarios are based on an efficient utilization of available capital and new contributions, coupled with a progressive approach to leveraging in order to deliver the maximum possible impact.** The key strategic variables are the level of replenishment contributions, including ACCs and CPLs; the targeted leverage; and the level of concessionality of the overall financing package. Replenishment contributions are critical to ensure an adequate level of concessionality, as well as to support the leverage and define the overall sustainable PoLG.

124. **IFAD will safeguard its financial sustainability through further enhancement of the sustainable replenishment baseline.[102]** IFAD's financial sustainability requires that IFAD13 replenishment contributions cover at least: (i) pre-financing of new country grant commitments; (ii) regular grants and the proposed core allocation to PSFP; (iii) operational expenses projected for the replenishment cycle; (iv) forgone principal compensation from approved DSF commitments falling due in the replenishment cycle and not otherwise reimbursed by Member States; and (v) the set-aside to address debt distress degradation during the cycle and potential needs for additional country grant financing. All financial scenarios incorporate these requirements.

125. **IFAD will manage the trade-offs between key financial variables.** 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. For example, a lower replenishment would have a direct impact on IFAD's ability to provide grants and concessional financing, requiring a reduction in the PoLG and importantly a decline in support to the poorest countries. Similarly, should IFAD not secure an increase in equity (deriving from core contributions and ACCs in excess of the sustainable replenishment baseline), or not achieve sufficient non-concessional borrowing, there would also be implications for the size of the PoLG and support for LICs. The annual assessment of resources available for commitment allows for recalibration of commitment and disbursement capacity based on the actual resources received.

IFAD13 scenarios and key financial variables

126. **A range of financial scenarios aiming to balance ambition and realism have been developed for IFAD13.** With regard to the main variables:

(iv) **Level of replenishment contributions.** Across the scenarios the level of core contributions ranges from US$1.38 billion to US$1.79 billion, with each scenario representing approximately 10 per cent nominal increments compared to IFAD12. Targets for additional climate contributions (from zero to US$200 million) and CPLs (from US$150 million to US$250 million) are also included in each scenario;

[102] The sustainable replenishment baseline was introduced through the Debt Sustainability Framework (DSF) reform, approved by the Executive Board in December 2019.

(v) **Leverage.** All scenarios include a target debt-to-equity ratio during IFAD13 of 35 to 39 per cent, compared to 31 per cent in IFAD12, and within prudential limits. This increased leverage ensures that IFAD continues to fulfil its universal mandate.

(vi) **Concessionality.** All scenarios target a grant element of overall commitment capacity of 47 per cent, compared to 44 per cent in IFAD12, representing IFAD's commitment to maximize concessional support to the poorest countries, within prudential limits.[103] The increased grant element reflects IFAD's countercyclical role and how IFAD's overall lending is becoming more concessional, within its capacity, in a global situation where more countries are in a situation of debt distress.

127. **While all scenarios are financially sustainable, and nominal financing levels increase for all country groups in all scenarios from scenario A+ onwards, only scenarios B and C keep IFAD on track to double impact by 2030:**

- **Scenario A** is based on approximately flat regular contributions in real terms, or 10 per cent in nominal terms. However, it results in a reduction of the overall PoLG to preserve concessionality and increase grant capacity compared to IFAD12, as well as due to increased DSF compensation of US$137 million (as compared to US$93 million in IFAD12).

- **Scenario A+** is based on a 20 per cent nominal increase in core contributions as well as assuming ACCs and increased CPLs. This results in a 5 per cent nominal increase in the PoLG compared to IFAD12, factoring in increased DSF compensation and grant capacity, as well as other factors. Nevertheless, this would still be a decline in real terms of the PoLG due to inflation.

- **Scenario B** is based on a 30 per cent nominal increase in core contributions, plus higher ACCs and CPLs, which at least maintains the IFAD12 PoLG in real terms (with an almost 10 per cent nominal increase), and allows IFAD to remain on track to double impact by 2030 (see table 4).

- **Scenario C** is an ambitious scenario aimed at a 40 per cent increase in core contributions, plus ACCs and CPLs, significantly increasing total concessional resources, and leading to a significant real increase in the overall PoLG. This scenario would lead to the greatest impact, while also being the most financially sustainable.

Table 1
Replenishment scenarios for IFAD13
(Millions of United States dollars)

	IFAD12**	IFAD13			
Scenarios		**A**	**A+**	**B**	**C**
Contributions					
New core contributions	1 257	1 380	1 500	1 655	1 790
Additional climate contributions		0	150	150	200
CPLs	93	150	175	200	250
Total new replenishment financing	**1 350**	**1 530**	**1 825**	**2 005**	**2 240**
Use of resources					
Programme of loans and grants (PoLG)	**3 350**	**3 240**	**3 510**	**3 640**	**3 850**
Grant element of overall PoLG (%)	***44***	***47***	***47***	***47***	***47***
Programme of work (PoLG + cofinancing)	**8 375**	**8 535**	**9 220**	**9 540**	**10 080**
Target level of cofinancing*	5 025	5 295	5 710	5 900	6 230

***** Cofinancing estimate includes cofinancing on PBAS and BRAM resources at 1:1.6 and PSFP cofinancing at 1:5 on deployable PSFP resources.

** As at March 2023.

[103] Details of other assumptions are contained in annex IV of the IFAD13 Business Model and Financial Framework paper (IFAD13/2/R.2).

128. **The following are the major elements and concepts underlying the replenishment scenarios:**

- **The PoLG** represents the Fund's commitment capacity, i.e. the maximum sustainable level of new programming during IFAD13 under each scenario of core contributions paid in cash, ACCs, level of debt (including CPLs) and capital consumption. In calculating the sustainable PoLG, IFAD considers the disbursement needs of the current portfolio while maintaining an appropriate level of liquidity, in line with the statement of resources available for commitment submitted annually to the Executive Board. IFAD will regularly review, intra-cycle, the key determinants of its commitment capacity and adjust the trajectory as needed, in consultation with the Executive Board.

- **IFAD's sustainable grant capacity** depends on new core replenishment contributions and a portion of ACCs provided on grant terms. After deducting unrecoverable expenses, including past DSF grants and Heavily Indebted Poor Countries compensation, IFAD determines its grant capacity. With at least 54 developing economies facing severe debt and significant poverty, IFAD's grants are critical for financing rural and agricultural development strategies. To ensure financial sustainability and continued support for Member States, grants are ringfenced in all scenarios, aligned with the DSF reform. Prioritizing grants across scenarios, while respecting the sustainable replenishment baseline constraint, requires higher replenishment contributions and/or CPLs for further increases in grants or concessionality. Similarly to IFAD12, a reserve for debt distress degradation will be established so that countries that fall into debt distress can still receive grant funding when they need it most, without reducing the allocations of other countries. This can be used throughout the IFAD13 cycle and will be set at a level of approximately 10 per cent of the overall volume of resources for countries in or at high risk of debt distress.

Table 2
Breakdown of the sustainable granting in IFAD13 scenarios
(Millions of United States dollars)

IFAD13 scenarios	IFAD12	A	A+	B	C
Programme of loans and grants (PoLG) (1+2)	**3 350**	**3 240**	**3 510**	**3 640**	**3 850**
Total concessional resources (1)*	**1 880**	**1 930**	**2 110**	**2 185**	**2 315**
of which sustainable granting capacity (3+4)	*470*	*550*	*625*	*655*	*700*
Grants to countries in or at high risk of debt distress** (3)	435	475	550	580	625
Non-country grants (4)	35	75	75	75	75
Of which resources to be used for private sector financing	-	*18*	*18*	*18*	*18*
Grant element of concessional resources (%)	***65***	***67***	***68***	***68***	***68***
Total non-concessional resources (2)	**1 470**	**1 310**	**1 400**	**1 455**	**1 535**
of which Private Sector Financing Programme		*90*	*90*	*90*	*90*

* Includes the overall grant capacity and concessional loans denominated in super highly concessional, highly concessional and blend terms.

** Including reserve for debt distress degradation (approximately 10 per cent of total).

- **The level of concessionality** is calculated in two ways: (i) on the envelope forming IFAD's concessional resources;[104] and (ii) on the overall PoLG assuming the current financing terms and allocations derived through the PBAS and the level of borrowed resources. The level of concessionality of

[104] 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).

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 increases the concessionality of its concessional resources to approximately 67 to 68 per cent, compared to 65 per cent in IFAD12.[105]

- **Country selectivity principles** will continue to be applied, and the number of countries accessing new financing during the cycle will remain at a maximum of 80. The country selectivity criteria,[106] first introduced in IFAD11, ensure country readiness and enhance IFAD's efficiency by reducing the need for frequent resource reallocations. Managing the number of countries accessing new financing also enables each country to benefit from larger amounts of funding. Countries that do not access financing in one cycle may do so in the next, while benefiting from a greater focus on implementation support for their ongoing operations.

- **The PBAS and BRAM** will remain the two key resource distribution mechanisms for public sector lending in IFAD13. The PBAS will be used to define country allocations for LICs and LMICs, while resources accessed through BRAM will be available to eligible LICs, LMICs and UMICs. **In nominal terms, the volume of resources for all country income groups, including UMICs, is expected to increase compared to IFAD12 in all scenarios from A+ to C.**

Table 3
Breakdown of use of resources by channel across the IFAD13 scenarios
(Millions of United States dollars)

	IFAD12	A	A+	B	C
Programme of loans and grants (PoLG)	**3 350**	**3 240**	**3 510**	**3 640**	**3 850**
Volume of resources by channel					
PBAS (including climate top-ups, DSF grants and reserve for debt distress degradation)	2 270	2 295	2 510	2 600	2 760
BRAM	1 045	780	840	870	920
PSFP (core grant and borrowed resources)	n/a	108	108	108	108
Other non-country/global-regional grants	35	57	57	57	57

- **The PSFP work programme** will be a direct reflection of both its funding strategy and the market demand. PSFP's funding will be a mix of: (i) IFAD's own capital, comprising a small portion of core resources and a larger portion of borrowed resources, all held on balance sheet;[107] and (ii) supplementary resources mobilized from donors, administered through the Private Sector Trust Fund (PSTF) and held off the balance sheet. Specifically, in IFAD13 it is proposed that the PSFP be funded through US$18 million in core resources and US$90 million from IFAD's borrowed resources while maintaining the PSTF for supplementary resources. This funding will enable the PSFP to catalyse up to US$450 million in private sector cofinancing through the use of blended finance and innovative financial structures. This is considered achievable in light of IFAD's own experience and that of other IFIs.

[105] This level of concessionality reflects the lending terms currently applicable. The rate could slightly decrease following an update of the lending terms.
[106] The criteria include strategic focus (a valid country strategy is available early in the cycle); absorptive capacity (all operations effective for more than one year must have disbursed funds at least once in the previous 18 months) and ownership (no approved loans pending signature for more than 12 months).
[107] References to "on-balance sheet" refer to the IFAD-only financial statements, while "off-balance sheet" refers to other entities within the consolidated financial statements – such as the Private Sector Trust Fund.

- **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 25 per cent, as of the second half of 2022, remaining below the 50 per cent threshold by the end of IFAD14, resulting in an overall sustainable stock of debt of approximately US$4 billion. To be able to assume this level of expected debt, it is essential that IFAD continues to have a stable capital size. This will be achieved by continued strong replenishments, the implementation of the DSF reform and 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. 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. The 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 MDBs, commissioned from the G20 as an additional effort towards maximizing the resources of MDBs.
- **Disbursements/programming trade-off.** It is imperative to carefully balance IFAD’s commitment capacity with its disbursement capacity. This ensures that disbursements can be made in line with project disbursement profiles while maintaining compliance with IFAD’s liquidity thresholds. Over the past few cycles, IFAD has taken prudent measures to carefully balance out its liquidity position with the speed of disbursements. Going forward, IFAD will explore options and approaches to manage disbursements taking into account resource needs across various lending terms, and based on IFAD’s cash position.
- **Replenishment targets** include the full amount of core contributions and ACCs but only the grant element of CPLs (as this is eligible for voting rights while the face value of the CPL is not). Table 4 below indicates the targets that would apply in each IFAD13 scenario based on this calculation. Table 1 above indicates the full amount of new replenishment financing in each scenario, including the face value of CPLs as this is what is relevant for the financing of the PoLG.

Table 4
IFAD13 replenishment targets by scenario
(Millions of United States dollars)

		IFAD12	A	A+	B	C
Member State contributions	New core contributions **(1)**	1 257	1 380	1 500	1 655	1 790
	Additional climate contributions **(2)**		0	150	150	200
	CPLs **(3)**	93	150	175	200	250
	CPL grant element **(4)** (assuming average of 35%)	23	52.5	61.25	70	87.5
	Total new replenishment financing (1+2+3)	**1 350**	**1 530**	**1 825**	**2 005**	**2 240**
	IFAD13 replenishment target (1 + 2 + 4)		**1 433**	**1 711**	**1 875**	**2 078**

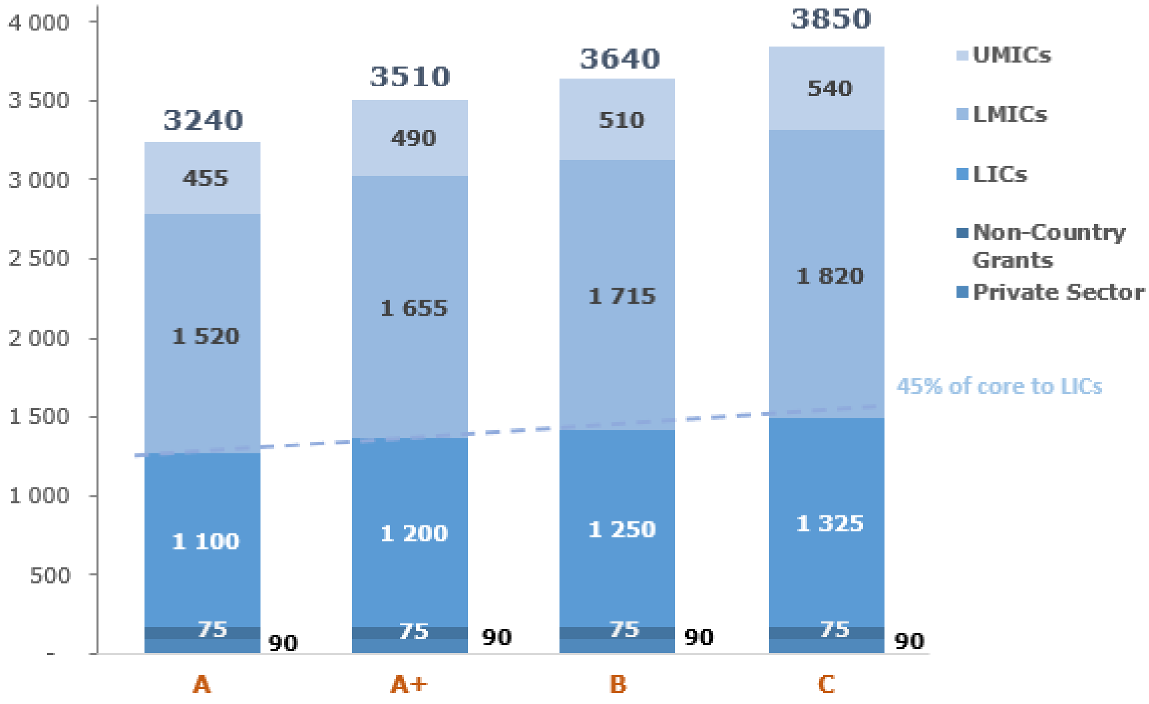
IFAD13 scenarios by income category and financing type

129. **In IFAD13, IFAD will aim to ensure that LICs receive at least 45 per cent of all core resources distributed through the PBAS.** This is the first time that IFAD has set a specific target for LICs' share of core resources (figure 6). It represents an increase compared to the share of core resources that LICs received in IFAD12, which stood at 42 per cent. Combined with the increased grant capacity and concessionality in all IFAD13 scenarios, this ensures that IFAD is delivering on the commitment to prioritize the poorest countries, particularly those with debt distress or vulnerabilities. IFAD is also delivering on its commitment to universality and financial sustainability: a third of IFAD's resources are provided on ordinary terms,[108] which can be absorbed mainly by LMICs, UMICs and private sector funding (figure 7). As shown below, overall, the higher the replenishment contributions, the higher the volume of both core and borrowed resources available to all country groups, while remaining broadly similar in percentage terms.

130. **IFAD will continue to allocate 100 per cent of core resources to LICs and LMICs, and to ensure that UMICs are able to access 11 to 20 per cent of the PoLG.** In the current financial scenarios, resources to be accessed by UMICs are estimated at similar levels to those estimated for IFAD12, at 14 per cent of the PoLG. Borrowed resources finance eligible LICs, LMICs and UMICs, and NSOs, preserving IFAD's universality.

131. **All country income countries would benefit from increased resources in scenario A+, B and C, while all groups would decline in scenario A.** Figure 8 presents how core and borrowed resources are channelled in the four scenarios, while figure 6 illustrates how financing is distributed by country income group in each scenario. In scenario A, all country income groups would experience a decline in resources in nominal United States dollar terms, with a small nominal increase in scenario A+ and larger increases in scenarios B and C.

Figure 6
IFAD13 PoLG scenarios: Distribution by income category
(Millions of United States dollars)



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

Figure 7
IFAD13 scenarios of PoLG by type of financing (incl. PSFP)
(Millions of United States dollars)

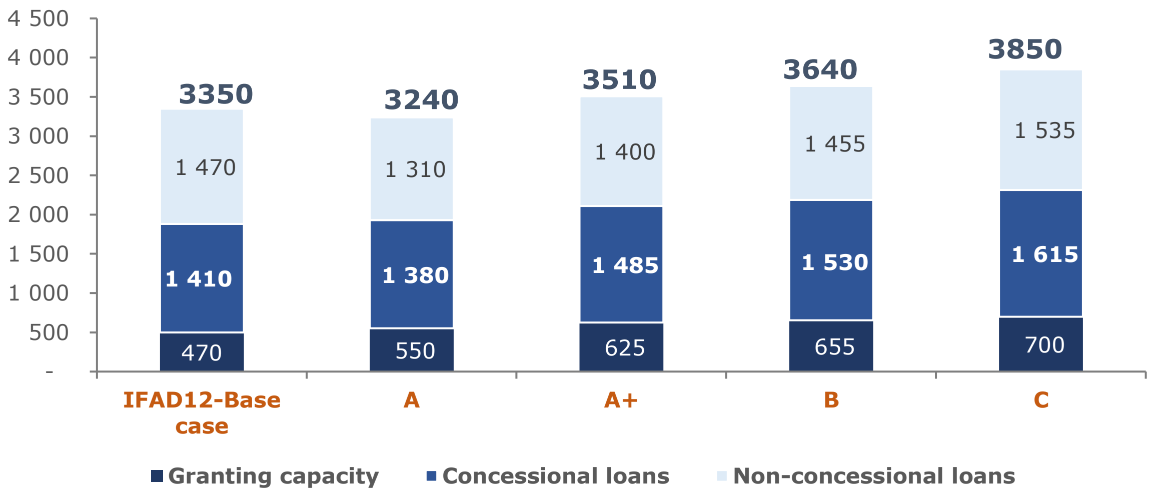
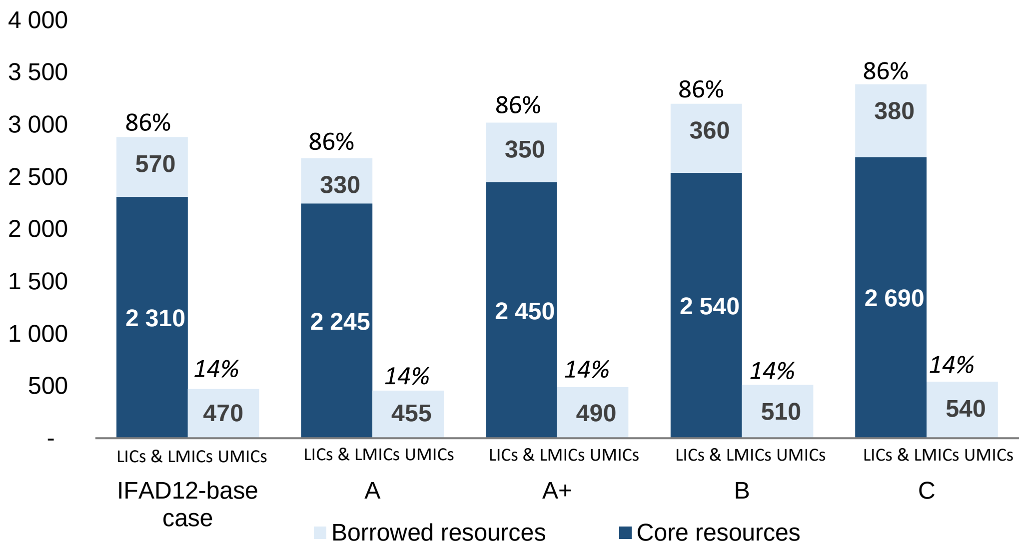


Figure 8
IFAD13 scenarios: Distribution of core and borrowed resources for sovereign operations, by income category*
(Millions of United States dollars)



* Excluding PSFP, non-country grants and DSF reserve as allocation by income group is not defined.

132. **IFAD will maintain its commitments to financing for Africa, while increasing its target for FCS.** In IFAD12, IFAD increased its financing targets for Africa and sub-Saharan Africa to 55 per cent and 50 per cent of core resources respectively. These targets will be maintained in IFAD13, while the target share of core resources for countries defined by the World Bank as affected by fragility or conflict will be increased from 25 per cent to at least 30 per cent, as indicated above. Overall, while target shares remain the same across the scenarios, they translate into higher volumes of core resources in United States dollar terms.

IFAD13 impact ambitions

133. **IFAD will continue with the ambition to double its impact by 2030 and will continue to systematically measure the impact attributable to the operations it finances.** Doubling impact means increasing the number of people benefiting from increased incomes from 20 million per year (based on IFAD10 impact assessments) to 40 million per year by 2030. Recent impact assessments

indicated that IFAD had improved the incomes of 25.8 million people per year in IFAD11. In IFAD12, IFAD expects to increase the incomes of 29 million people every year.

134. **To achieve the ambition of doubling impact by 2030, IFAD would need to reach a PoW of at least US$10 billion in IFAD13.** This would put IFAD on track to ensure that 34 million to 35 million people per year benefit from increased incomes during IFAD13. IFAD would then be on track to help 40 million people annually to increase their incomes by 2030, which is the last year of IFAD14. Table 5 presents the impact levels to be reached during IFAD13 for each of the four scenarios and shows that IFAD should aim to achieve at least scenario B, and preferably scenario C, to ensure that it remains on track to double impact by 2030. Enhancements to IFAD's business model and country programme approach and improvements in value for money and impact per dollar will also play a role in delivering on this ambition, though these efficiency and effectiveness improvements are not incorporated in the simulations.

135. **IFAD will also work to further deepen its impact.** Continued commitment to gender, youth and social inclusion are key elements of deepening impact, as is the increased focus on the poorest countries and those affected by fragility. Greater investment in climate adaptation and greater engagement with the private sector also underpin deeper and more sustainable impact, together with the increased focus on scaling up. The inclusion of impact indicators for food security and for women's empowerment in the IFAD13 RMF also reflects this focus on deepening impact across different areas that are at the heart of IFAD's mandate, and closely linked to the IFAD13 priorities, alongside continued measurement of impacts on production, market access, resilience and nutrition.

Table 5
Financial scenarios of PoW and simulations of impact on IFAD's goal and strategic objectives[109]

	IFAD13 financial scenarios			
	A	A+	B	C
PoW ***(US$ million)***	**8 535**	**9 220**	**9 540**	**10 080**
Impact (number of people [in millions] with)				
- **Increased income / positive economic mobility (SDG 2.3 & 1.2)**	87-93	94-100	98-104	103-110
- **Increased production (SDG 2.3)**	71-75	76-81	79-84	83-89
- **Increased market access (SDG 2.3)**	73-77	79-84	81-86	86-91
- **Greater resilience (SDG 1.5)**	43-46	47-50	48-51	51-54

VII. Reporting on results and progress in IFAD13

136. **IFAD's reputation as a global leader in accountability and results culture is widely recognized.** The Fund remains firmly committed to upholding transparency and delivering credible and impactful results through its reporting mechanisms.

137. **IFAD13 objectives will be measured and reported on systematically and transparently.** The two key vehicles for articulating and measuring the Fund's ambition during IFAD13 are the IFAD13 matrix of commitments and monitorable actions (annex I), and the IFAD13 RMF (annex II).

138. **The IFAD13 matrix of commitments and monitorable actions reflects the key commitments made during the Consultation.** Each commitment reflects high-priority areas for action agreed during the Consultation and is linked to a set of time-bound, monitorable actions to be taken in order to meet those commitments. The matrix also identifies the RMF indicators that will be influenced

[109] Impact figures are estimated based on the total PoW derived from IFAD's PoLG, using parameters from IFAD11 impact estimates and outreach achieved for projects that closed in the IFAD11 period. 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 the PSFP and PoW.

by each commitment. The format continues the practices from IFAD12 of providing an integrated accountability framework, distinguishing higher-level commitments from monitorable actions, and clarifying the theory of change by linking to specific RMF indicators.

139. **The IFAD13 RMF provides a basis for demonstrating IFAD's performance.** The RMF is an integral part of IFAD's Development Effectiveness Framework and a critical tool for demonstrating and managing performance at the institutional level. It reflects key priority areas identified and agreed upon during a replenishment consultation and includes indicators to track progress. The IFAD13 RMF builds on the findings of the 2023 independent review of the IFAD12 RMF.[110] The review supported the improvements made based on lessons learned from previous RMFs, including the shift from target setting to progress tracking for outcomes and outputs, and the streamlining of indicators.

140. **As in previous replenishments, IFAD will report on impact indicators during the last year of IFAD13.** IFAD will continue to undertake impact assessments on approximately 15 per cent of its projects, which is a sufficiently large sample for statistical robustness, though efforts will be made to mobilize resources to increase the share of projects assessed, particularly in light of the ambitious target of doubling impact by 2030. A synthesis report on the outcomes of the IFAD13 impact assessments will be presented to the Executive Board in the third quarter (Q3) of 2028. This continues IFAD's practice as one of the only IFIs to systematically measure the impact attributable to the operations it finances.

141. **Starting from the end of IFAD12, IFAD will also begin presenting a stand-alone replenishment completion report.** While the RIDE will continue to be the main tool for reporting on IFAD's operations to the Executive Board, the replenishment completion report will be developed primarily as a more effective communications tool, drawing on the RIDE and other sources. It will create opportunities, through its preparation and dissemination, to reflect on and highlight the main achievements of the replenishment period with Member States and other partners. The IFAD12 completion report will be presented in late 2025, and the IFAD13 replenishment completion report is expected in 2028.

VIII. Arrangements for the IFAD13 midterm review and IFAD14 Consultation

142. **IFAD13 midterm review.** A midterm review of IFAD13 implementation and its findings will be presented at an early session of the IFAD14 Consultation.

143. **Selection of the IFAD14 Chairperson.** The Chairperson for the IFAD14 Consultation will be selected through an open process to be completed prior to the first session of the IFAD14 Consultation, in collaboration with the Executive Board.

IX. Recommendation

144. **The IFAD13 Consultation recommends to the Governing Council that it adopt the draft resolution attached as annex IX to this report.**

[110] EC 2023/123/W.P.3 and EC 2023/123/W.P.3/Add.1

IFAD13 matrix of commitments and monitorable actions

Commitments	*Monitorable actions*	*Time frame*	*Related Results Management Framework (RMF) indicators*
1. IFAD13: Building resilience in vulnerable communities			
1.1 Ensuring inclusion	1. Increase portfolio of projects with a focus on gender by ensuring that 35 per cent of new sovereign projects aim to achieve transformative outcomes for gender equality and women's empowerment.	Q4 2027	2.2.6 Gender equality (ratings 4 and above/ratings 5 and above) (percentage) – 90 for 4 and 60 for 5 and above 3.1.4 Projects designed to achieve transformative outcomes for gender equality and women's empowerment– 35 per cent 3.1.5 Appropriateness of targeting approaches in IFAD investment projects (ratings 4 and above/ratings 5 and above) All persons-based indicators will be disaggregated by youth status (youth and not youth) and sex, as well as Indigenous Person status and disability when relevant to the specific focus of the project.
	2. Increase portfolio of projects with a focus on youth by ensuring that 60 per cent of new sovereign projects are youth-sensitive and scale the Grassroots Youth Alliance to an additional three countries.	Q4 2027	
	3. Continue support to the corporate processes for the three civil society partnerships: the Indigenous Peoples' Forum at IFAD, Farmers' Forum and Grassroots Youth Alliance.	Q4 2027	
	4. Ensure that farmers' organizations, Indigenous Peoples and youth are consulted in the development of relevant strategies and operational policies, , and explore further options to ensure due participation of all relevant rights holders and stakeholders in relevant processes, with a specific focus on persons or groups that may face additional barriers for participation. This should build on IFAD's Social, Environmental and Climate Assessment Procedures, and existing coordination mechanisms and consultative processes, and respect IFAD's official governance structures and processes.	Q4 2027	
	5. Increase portfolio of projects with a focus on nutrition by ensuring that 60 per cent of new sovereign projects are nutrition-sensitive.	Q4 2027	
	6. Ensure that at least five new projects include persons with disabilities as a priority target group.	Q4 2027	
	7. Ensure that at least 10 new projects include Indigenous Peoples as a priority target group.	Q4 2027	
	8. Replenish the Indigenous Peoples Assistance Facility, including through mobilization of additional resources from other partners.	Q4 2027	
1.2 Enhancing focus on fragile contexts	9. Allocate at least 30 per cent of core resources to countries with fragile situations (based on the World Bank list of countries with fragile and conflict-affected situations FY2024).	Q4 2024	RMF indicators can be disaggregated by fragility status

Commitments	*Monitorable actions*	*Time frame*	*Related Results Management Framework (RMF) indicators*
	10. Establish a fragility unit.	Q4 2024	
1.3 Investing in climate resilience and biodiversity	11. Present a consolidated strategy on climate, environment and biodiversity to the Executive Board, and plan a roadmap for IFAD's alignment with the Paris Agreement.	Q2 2025	2.2.7 Environment and Natural Resource Management (ENRM) and climate change adaptation (CCA) (percentage) – 90 3.1.3 Climate capacity: Projects designed to build adaptive capacity (percentage) – 90
	12. Increase target for climate finance to at least 45 per cent of the IFAD13 programme of loans and grants (PoLG), of which 30 per cent, by 2030, will be for nature-based solutions. A methodology for measuring biodiversity finance will be developed as part of the climate, environment and biodiversity strategy.	Q4 2027	
	13. Ensure that 100 per cent of new COSOPs are aligned with country Nationally Determined Contributions and national biodiversity strategies and action plans.	Q4 2027	
1.4 Increasing engagement with the private sector	14. Present an updated strategy on private sector engagement to the Executive Board.	Q3 2024	3.4.4 Leverage effect of IFAD non-sovereign investments – 5
	15. Present a framework for implementing the new PSFP funding modalities to the Executive Board.	Q3 2024	
	16. Ensure that 100 per cent of new country strategic opportunities programme (COSOPs) identify private sector opportunities.	Q4 2027	
2. Delivering impact through integrated country programmes			
2.1 Promoting an integrated country programme approach	17. Ensure that at least 10 per cent of new projects use multiphased programmatic approaches.	Q4 2027	
2.2 Adaptive management	18. Present an updated version of IFAD's Knowledge Management Strategy to the Executive Board.	Q3 2026	3.2.1 Disbursement ratio – 16 3.2.2 Overall implementation progress (ratings 4 and above) - 80 3.2.3 Proactivity index – 80 3.3.3 Knowledge management (ratings of moderately satisfactory and above) – 90 (stakeholders surveys), 80 (CCRs)
	19. Consolidate the portfolio by reducing the number of ongoing sovereign investment projects to approximately 200.	Q4 2027	
2.3 Enhancing the sustainability and scalability of investments	20. Ensure that 100 per cent of sovereign and non-sovereign investment projects are linked to relevant country-level policy goals and supportive policy work by IFAD.	Q4 2027	3.3.1 Effectiveness of IFAD country strategies (ratings moderately satisfactory and above) – 90 (stakeholders surveys), 80 (CCRs) 3.3.2 Country-level policy engagement (ratings of moderately satisfactory and above) – 90 (stakeholders surveys), 80 (CCRs) 3.3.4 Overall quality of SSTC in COSOPs (ratings of 4 and above) (percentage) – 100
	21. Ensure that at least 25 projects include new South-South and Triangular Cooperation (SSTC) initiatives.	Q4 2027	
	22. Ensure that at least 20 projects integrate innovative approaches, including ICT4D or digital agriculture.	Q4 2027	

Commitments	*Monitorable actions*	*Time frame*	*Related Results Management Framework (RMF) indicators*
	23. Ensure that 100 per cent of new COSOPs are aligned to nationally adopted food system transformation pathways where these exist.	Q4 2027	
3. Strengthening organizational effectiveness and efficiency			
3.1 Strengthening organizational effectiveness and efficiency	24. Introduce a rolling forecast approach to budgeting	Q4 2027	3.5.1 Ratio of IFAD's administrative expenditure to the PoLG (including IFAD-managed funds) – 12.5 3.6.1 Decentralization effectiveness – 80 3.6.2 Percentage of women in P-5 posts and above – =>45 3.6.3 Staff engagement index (Global Staff Survey) with specific indicators related to the IFAD Strategy on Diversity, Equity and Inclusion – 80
	25. Introduce a methodology to calculate efficiency ratios aligned with other comparator organizations.	Q4 2027	
	26. Present an updated Strategic Framework to the Executive Board.	Q2 2025	
4. Assembling and leveraging development finance			
4.1 Maximizing resources to those most in need	27. Increase the share of core resources allocated to low-income countries (LICs) to 45 per cent. Continue to allocate 100 per cent of core resources to LICs and lower-middle-income countries, 55 per cent to Africa and 50 per cent to sub-Saharan Africa, while also ensuring that upper-middle-income countries can access between 11 and 20 per cent of the IFAD13 PoLG through the use of borrowed resources.	Q4 2027	
4.2 Expanding financing to maximize impact	28. Provide update on the introduction of additional climate contributions as a new instrument to leverage climate finance in the IFAD13 midterm review.	Q1 2026	3.4.1 Deployable capital – Tracked 3.4.2 Debt-to-equity ratio – Tracked 3.4.3 Cofinancing ratio – 1:1.6
	29. Present proposed updates to the Non-Concessional Borrowing Policy to the Executive Board prior to the start of IFAD13.	Q4 2024	

IFAD13 Results Management Framework (2025–2027)

Please see document IFAD13/3/R.2/Rev.1/Add.1.

Private Sector Financing Programme: Funding model and implementation arrangements

I. Introduction

1. IFAD's ambitious vision for private sector engagement in IFAD13 aims to create win-win partnerships between the private sector and small-scale producers in rural communities. Leveraging its established partnerships and field presence, IFAD will enable, catalyse and assemble private sector investments that empower small-scale producers through improved livelihoods, more resilient enterprises and job opportunities, while ensuring profitable investments that deliver positive social and environmental impacts. Leveraging its expertise in rural development, IFAD will collaborate effectively with micro, small and medium-sized enterprises and financial intermediaries to provide tailored solutions that address local needs in rural areas and strengthen rural-urban linkages. With its deep understanding of rural challenges and extensive partnerships, IFAD will maximize its impact through the Private Sector Financing Programme (PSFP) by bridging the gap between the private sector and rural communities.

2. Building on the progress and capacities developed during IFAD11 and IFAD12 and the lessons learned from other development partners (see section V), IFAD will expand the PSFP to increase private investments that deliver greater impact on priority issues, without putting further pressure on increasingly indebted governments.

3. This annex describes the proposed PSFP implementation modalities to deliver on the ambition to scale the PSFP's impact. It does not cover the full range of IFAD's private sector engagement, which will also remain a strong focus within IFAD's sovereign operations and other facilities and programmes supported by supplementary resources.

II. PSFP positioning and comparative advantage

4. The PSFP has three specific objectives: (i) job creation and economic inclusion of youth; (ii) women's empowerment; and (iii) the promotion of climate adaptation and mitigation efforts to achieve greater resilience among small-scale producers and the rural poor. These objectives translate into a commitment to devoting 50 per cent of PSFP resources to gender-sensitive investments, 30 per cent to youth-sensitive investments and 50 per cent to investments that promote climate-resilient agriculture, adaptation and mitigation.

5. The PSFP was designed in 2020 to leverage IFAD's comparative advantage and complement the work of other development partners. The programme has the following unique features:

   (i) An exclusive focus on the rural poor and small-scale producers, using the origination capabilities fostered by IFAD's US$20 billion active portfolio (including cofinancing) and credible targeting strategies in each operation. This builds on IFAD's strong capability in targeting small-scale producers and the rural poor, women and other underserved groups such as youth and Indigenous Peoples and successfully building public-private partnerships. This allows the PSFP to effectively originate and reach market segments that other actors cannot in a cost-effective manner.

   (ii) Thus far, the PSFP strategy has been built on high risk appetite while using effective ways to de-risk, including IFAD's own technical expertise and sovereign investments. PSFP solutions are tailored to the target group: ticket sizes will most often be smaller than those of other international financial institutions (IFIs), and their focus is exclusively on small-scale producers and the rural poor. IFAD's robust network of partners in rural areas and existing expertise, combined with de-risking through sovereign investments, are key ingredients for the PSFP to deliver small and high-risk tickets while remaining commercially viable to attract private investors and ensure financial sustainability.

(iii) The PSFP value proposition to its donors and investors is high impact, combined with cost recovery plus, potentially, a relatively low return. The PSFP model therefore represents an important shift, situated between the grant-based model, which is often used to cater to the needs of small-scale producers but is not financially sustainable, and the relatively high double-digit returns expected by commercial or impact investors, which small-scale producers and agricultural small and medium-sized enterprises (agri-SMEs) cannot deliver. IFAD is well positioned to engage in the private sector investment space given its mandate and raison d'être, which are about delivering development impact to the poorest and most vulnerable rural people.

(iv) The PSFP strategy is built on the requirement of additionality and complementarity with IFAD's public sector investments and those of other partners. Projects must be aligned with countries' strategic goals and public sector efforts. Complementarity between public and private sector efforts is also required of each PSFP project to avoid fragmentation, with the ultimate goal of maximizing impact. This complementarity also means that PSFP projects will benefit from de-risking activities delivered through IFAD's sovereign programme and wide range of thematic programmes. The PSFP also seeks to leverage the work of other development partners for the delivery of technical assistance to enhance synergies and optimize the use of donor resources. It will also leverage IFAD's solid in-house technical expertise to promote innovative concepts such as nature-based solutions, resilience measurement, precision agriculture, etc. and bring them to scale globally.

(v) The PSFP particularly engages with projects and partnering entities that: (i) are committed to improving small-scale producers' livelihoods in food systems; (ii) are female- and youth-owned and operated; (iii) offer innovative business models that rely on digital or other technologies geared to creating income and job opportunities for more small-scale producers and inclusive value chains in a cost-effective manner; and (iv) strongly support climate-resilient approaches. All investees must have robust development objectives aligned with PSFP priorities and provide accessible, affordable services to PSFP's targeted end beneficiaries as part of their core business. In many cases, especially during the recipient due diligence and negotiation stages, the PSFP strives for and successfully creates incentives for profit-oriented private sector entities to commit to development targets they would not ordinarily meet in their normal course of business.

Box 1
How PSFP serves corporate priorities vis-à-vis youth, gender and climate

Thus far, the PSFP has invested in six operations in which some 60 per cent of the expected beneficiaries are women. In terms of youth targeting, about 35 per cent of the beneficiaries are expected to be youth. Furthermore, three of these operations have climate change as a major theme.

The sharp gender, youth and climate focus of each investment is ensured throughout the project cycle from design to supervision. Targeting strategies for each non-sovereign private section operation (NSO) are agreed upon with the recipient, and targets are included in the legal agreements and closely monitored during implementation. Each NSO has a results framework against which development outcomes are also measured. As all PSFP projects are managed by a project development team (PDT), during due diligence, the PDT will assess the capacity of the project and private sector recipient to collect core indicator data. The indicators are identified in coordination with the private sector recipient and monitored through supervision meetings and annual supervision reports.

During due diligence, an expert from IFAD's Environment, Climate, Gender and Social Inclusion Division (ECG) is also responsible for verifying that the project meets the requirements of IFAD's Social, Environmental and Climate Assessment Procedures (SECAP), assessing potential risks and existing recipient practices in environmental, social and climate risk management, and that it responds to the above-stated targeting priorities. The expert also provides technical support in these areas during project implementation. This includes reviewing the adequacy of the recipient's environmental and social management system and assessing its capacity to manage the environmental, social and climate impacts that could be generated by the NSO. Through the envisaged monitoring process, IFAD engages with recipients to ensure that product development and strategies are aligned with the needs of intended beneficiaries such as smallholders, women, and youth and that results are achieved on the ground. For this, IFAD relies on both its dedicated private sector team and field offices.

It should also be noted that appropriate social targeting is also integrated as a "must" in the independent Quality Assurance Group's (QAG's) reviews of all projects supported by the PSFP, which each and every investment proposal must undergo twice: by a first-level committee before pipeline entry, and by a second-level committee before an investment proposal is eventually sent to the Executive Board for final approval. The current advisory committee, comprising donors to the PSFP, also exercises oversight of the pipeline and provides guidance on the alignment of proposed projects with PSFP objectives.

III. Proposed PSFP funding model

6. During IFAD13, the aim of the PSFP is to deliver greater impact through job creation and the economic inclusion of youth, women's empowerment and the promotion of climate adaptation and mitigation efforts to achieve greater resilience among small-scale producers and the rural poor. This ambition requires scaled-up predictable resources for the PSFP, which in turn requires a new funding model that, in contrast to the current one, is not totally reliant on supplementary resources. Management has explored several options (i.e. continuing with supplementary resources only, reliance on core only, a mix of funding sources) and concluded that a suitable approach will entail a mix of supplementary resources, core contributions from the non-country grant envelope and borrowing. This strategy also builds on lessons learned from other IFIs, as summarized in section V.

7. In IFAD13, PSFP funding will be sourced and channelled from: (i) concessional funds (i.e. mobilized supplementary funds[111]), primarily grants from donors, which are held off the IFAD balance sheet; (ii) non-country grant resources (core contributions), which are held on the IFAD balance sheet; and (iii) borrowed resources, also held on the IFAD balance sheet. The rationale for having IFAD grants and borrowing is to ensure predictability and scale that supplementary-funded resources alone will not allow. The proposed funding model for the PSFP will entail:

A. Off-balance sheet funds[112]

8. The Private Sector Trust Fund (PSTF) is an entity fully managed by IFAD and thus far funded mainly by supplementary resources from donors which are included in the consolidated financial statements and are not part of IFAD's standalone financial statements.[113] While it will not be the only host of dedicated resources to deliver the PSFP projects, its central role will continue in IFAD13. The concessional PSTF resources (mobilized supplementary resources) will be used to meet the demand for high-impact products with higher risk and could follow specific donor deployment priorities. These are expected to support interventions notably in countries with the highest needs (i.e. in fragile contexts and/or debt distress). PSTF resources can also be used on a demand basis for blending with IFAD's borrowed resources.

B. On-balance sheet funds

9. IFAD's borrowed resources (US$90million over the 3-year IFAD13 period) will provide the bulk of funds for lower-risk positions and increase the volume of NSOs, where IFAD's borrowed resources could be blended with concessional resources, if

[111] Thus far, the PSFP has secured contributions of US$39.3 million from Germany, Luxembourg, Finland, and the European Commission, and discussions are under way with other partners for additional contributions.
[112] References to "on-balance sheet" refer to the IFAD-only financial statements, while "off-balance sheet" refers to other entities within the consolidated financial statements, such as the PSTF.
[113] IFAD also provided US$25 million to the PSTF from the non-country-grant envelope under its COVID-19 response. These resources served as seed capital for the programme.

necessary. This has the benefit of leveraging IFAD's balance sheet to provide the PSFP with greater and predictable resources to deliver impact at a greater scale, which resources from supplementary sources cannot deliver. The risk appetite for the use of these borrowed resources will be commensurate with the overall portfolio risk profile of the IFAD-rated entity. Furthermore, core grant resources of up to US$18 million over the 3-year IFAD13 period will constitute a **blending support envelope**, supplying funds for blending[114] with IFAD's borrowed resources. This grant allocation is meant to ensure a minimum predictability of grant resources to complement other funds, as the timing of supplementary resources can be unpredictable. The full amount of the non-country grant will be used to provide blended finance for investments in low-income countries (LICs) and lower-middle-income countries (LMICs), as well as countries affected by fragility.

10. PSFP projects are impactful and at the same time commercially viable. As borrowed capital entails repayment obligations and interest servicing, its use requires 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 LICs, LMICs and countries affected by fragility, along with upper-middle-income countries, and broaden PSFP investments along the risk-return continuum. In essence, a portfolio approach will be adopted with regard to the programme's operations.

11. As stated above, a portion of PSFP projects will require the use of grant resources to blend or credit-enhance the borrowed resources. De-risking investments, a form of blending also known as "credit enhancement" (or credit protection), is improvement of the credit profile of a financial transaction through the use of different techniques. It involves a higher risk appetite capital (such as grant resources) absorbing a portion of the credit exposure of a lower risk appetite capital (such as borrowed resources). This is already practised in other development finance institutions' (DFIs') blended finance operations and commonplace in private sector financial markets. Operationalization can be internal to the investment (e.g. subordination) or external to the investment (e.g. wrapped exposures). Specific guidelines, including the explanation of how credit enhancement will work, will be developed for the PSFP by the fourth quarter (Q4) of 2024.

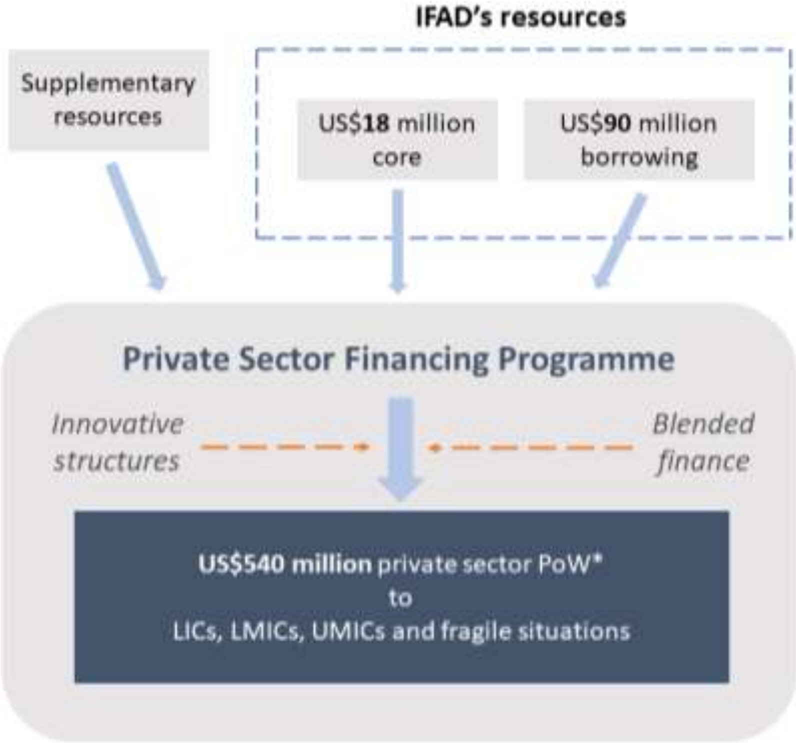
12. The rationale for scaling up the PSFP programme of work (PoW) reflects the promising impact and leverage achieved by the programme thanks to the IFAD11 seed funding of US$25 million. Indeed, these resources, along with other donor contributions, were used to fund seven NSOs with expected cofinancing of US$153.7 million and should benefit 493,000 direct and 1.54 million indirect beneficiaries, 57 per cent of whom are expected to be women and 33 per cent youth.[115] The unique features of PSFP instruments, such as subordinated debt, allow for private sector leverage that a sovereign loan to a government cannot deliver. This is a major part of the rationale for a larger PSFP.

13. With the proposed amounts of IFAD13 resources alone, and excluding supplementary funds that have been mobilized or are under negotiation, the PSFP is expected to catalyse up to US$450 million in cofinancing, for a new private sector PoW of at least US$540 million. This includes the US$90 million in IFAD borrowing with a cofinancing ratio of 1:5. Such a ratio is achievable in light of

[114] Blending options include: (i) de-risking investments, i.e. directly funding loans for high-risk transactions through credit enhancement; (ii) subsidizing the pricing for high-risk transactions to ensure positive risk-adjusted return on capital; (iii) providing direct grants in addition to loans funded by borrowed resources; (iv) providing capped foreign exchange depreciation cover; and (v) covering foreign exchange hedging costs.
[115] The seven NSOs through the PSFP that were approved by the Executive Board are in Cambodia, Madagascar, Malawi, Mozambique, Nigeria, Plurinational State of Bolivia and Uganda.

IFAD’s own experience and that of other IFIs. The outreach is expected to be about 5.9 million beneficiaries.

Figure 1
PSFP’s proposed funding model for IFAD13



* PoW total volume, based on PSFP deployed funds’ expected cofinancing ratio to date of 1:5.

PSFP flow of funds

14. Assets funded by the borrowed resources of approximately US$90 million will be held on IFAD’s balance sheet, and deployment will primarily target moderate-risk transactions. The specific risk appetite will be defined as part of the above-stated guidelines that IFAD will develop.

15. The non-country grant contribution (core contribution) of up to US$18 million will also be held on the balance sheet, constituting a blending support envelope. When appropriate, grant resources will be sourced from this envelope for blending or credit protection of borrowing-financed assets.

16. The PSTF will continue to serve as the dedicated platform for channelling supplementary resources from donors to the PSFP, and as such will remain an off-balance sheet entity, holding higher-risk assets funded by grants and returnable contributions. PSTF resources can also be used for blending with IFAD’s borrowed resources on a demand basis. The deployment of donor funds will follow specific donors' mandates (with different risk appetite spectrums). As the PSTF is an off-balance sheet entity, assets held in it have a limited impact on IFAD’s credit rating.

17. The guiding principle of resource deployment will remain prioritization of the countries that need it most while ensuring universality. However, the actual distribution of the entire PSFP PoW by country income category will vary, depending on a number of factors, including but not limited to the amount of supplementary resources raised at the PSTF level and the need for credit enhancement. Deployment is envisaged to generally match the sources of funds and achieve a balanced portfolio approach in terms of development rationale, the demands and needs of targeted countries and the risk profile constraints of the IFAD-rated entity. Borrowed resources will be deployed only on non-concessional

terms to ensure financial sustainability; however, the blending with concessional funds (pursuant to the Enhanced Blended Concessional Finance Principles to ensure discipline) will allow the utilization of part of those funds in higher-risk contexts.

Project selection

18. The selection of projects will be based on the principles and screening criteria described in the Framework for IFAD Non-Sovereign Private Sector Operations[116] approved by IFAD's Executive Board, namely: relevance, additionality, impact, and environmental and social standards and risks.

19. The guiding principle of resource deployment will remain prioritization of the countries that are most in need. However, the final selection will depend on compliance with the above-mentioned NSOs screening criteria and the constraints stemming from the sources of funding.

20. In line with the agreed approach for IFAD's sovereign operations, NSOs in upper-middle-income countries will be financed under the PSFP using borrowed resources and potentially also supplementary resources. NSOs in LICs, LMICs and countries affected by fragile situations may be financed in the following ways:

(i) Borrowed resources to be blended, when relevant, with concessional resources (coming from supplementary funds and/or core grant resources of up to US$18 million). For clarity, it should be noted that such operations can be funded without supplementary funds, therefore financing NSOs in these locations in IFAD13 is not dependent on mobilization of additional supplementary funds;

(ii) By channelling PSFP investments through private sector entities located in moderate risk countries that have subsidiaries in LICs, LMICs and/or fragile situations, and ring-fencing the benefits of the funding to countries in high need. This approach has been followed by several MDBs to reconcile risk and impact; or

(iii) Exclusively using supplementary resources channelled through the PSTF.

IV. Implementation modalities of PSFP

A. PSFP's financial instruments

21. In line with the Framework for IFAD Non-Sovereign Private Sector Operations and Establishment of a Private Sector Trust Fund, the PSFP financial offering to private sector recipients involves three main financial instruments:

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

(ii) **Risk mitigation**, including risk-sharing facilities and guarantees. Small-scale producers may require pre-harvest financing to purchase fertilizer and other inputs, and local banks are unwilling to offer financing due to the high risk. A risk-sharing facility is an agreement into which IFAD would enter – typically with a financial intermediary – to encourage it to lend to small-scale producers and agri-SMEs or certain subgroups such as women and youth or for climate mitigation purposes. IFAD would share the risk by committing to cover a portion of any losses incurred on an asset or portfolio of eligible assets. IFAD could also extend a guarantee to local financial intermediaries willing to take on the risk if offered the appropriate incentives. The guarantee

[116] EB 2020/129/R.11/Rev.1.

is a pledge made to the financial intermediary that a certain percentage of the loan amount will be covered in the event of default.

(iii) **Equity instruments** 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.

22. In terms of strategic deployment of these instruments, IFAD has 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, along with an equity investment in the Agribusiness Capital (ABC) Fund in 2020. Over the IFAD13 replenishment cycle, in addition to senior and subordinated debt, risk mitigation instruments – notably risk-sharing facilities and guarantees – are envisaged to enter more prominently into deployment, while the deployment of equity instruments will not be pursued unless there is a real opportunity for impact and leverage.

B. PSFP delivery process

23. Based on the lessons learned, IFAD has invested significantly in recent years to build capacity to deliver NSOs funded by the PSFP. The investment team charged with leading the deployment of PSFP resources is hosted in IFAD’s Private Sector Advisory and Implementation Unit (PAI), created in 2020 to coordinate and lead delivery of the PSFP along with other private-sector-focused initiatives. The PAI currently includes dedicated investment professionals with varied experiences, both from other DFIs and the private sector (African Development Bank [AfDB], Inter-American Development Bank, Oikocredit, East African Development Bank, Deutsche Bank). For the delivery of individual investments, PAI is working hand in hand with the Programme Management Department, supported by an entire ecosystem – especially but not limited to IFAD’s Office of Enterprise Risk Management (RMO), Financial Controller’s Division (FCD), ECG and the Office of the General Counsel (LEG).

24. A series of policies, guidelines and templates has also been developed. They include:

- Framework for non-Sovereign Private Sector Operations and Establishment of a Private Sector Trust Fund;
- Non-sovereign operations design guidelines (Q1 2021);
- Credit risk guidelines for non-sovereign operations (Q3 2021);
- Legal templates for NSOs: Loan agreement, term sheet, letter of information, legal due diligence checklist, mandate letter, non-disclosure agreement (Q4 2021, ongoing);
- Non-sovereign operations quality assurance tool (Q3 2021);
- Non-sovereign operations impact framework (Q4 2022);
- Procurement guidelines for non-sovereign operations (Q3 2020);
- SECAP review note and Environment and Social Management Plan (ESMP) matrix for non-sovereign operations (Q4 2020); and

- IFAD's Policy on Disclosure of Documents for Non-Sovereign Private Sector Operations[117] (Q4 2022).

25. The internal review process for PSFP interventions entails two stages:[118]

(i) The concept note stage, in which the project and recipient are already succinctly described, including expected impacts and risks, but still without very explicit analysis of the recipient's own data and field visit. The concept note stage ends with discussion of the project concept note in the Operational Strategy and Policy Guidance Committee (OSC) under the guidance of QAG, after which the Vice-President approves formal pipeline entry of the PSFP intervention;

(ii) The appraisal or due diligence stage, which entails meticulous analysis of the proposed intervention from all angles (complementarity with programme of loans and grants, financial aspects, risks, environmental, social and governance, additionality, impact), including a detailed analysis of the recipient's own data during a due diligence mission. This stage ends with discussion of the project appraisal report in the Investment Resource Committee (IRC), after which the Vice-President approves submission of the PSFP intervention for final approval by the Executive Board.

26. In parallel with the project concept note and the project appraisal report, independent reports from RMO and ECG are brought forward to the respective committee meetings (OSC and IRC). During the final steps of project appraisal, LEG performs an independent legal due diligence review (in which local legal counsel is also included), and the FCD financial crimes unit conducts a very detailed integrity check on the recipient and its key personnel and stakeholders.

27. In terms of risk, 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, depending on the nature of the proposal, other risks will be considered when dealing with recipients, including governance, operational, integrity, financial management, fiduciary and commercial risks, as well as the financing instrument requested.

28. RMO, with the support of FCD, is responsible for implementing and monitoring the risk rating system. This is the internal credit risk scoring tool, which includes 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 and the pricing or yield of PSFP interventions, guide the development of a suitable structure and supervision process, determine loss given default and the probability of default, and facilitate risk migration analysis.

C. Treatment of blended finance operations

29. In order to ensure rigour in the use of blended finance activities, since 2020 IFAD follows the Enhanced Blended Concessional Finance Principles for DFI Private Sector Operations of the DFI Working Group on Blended Concessional Finance for Private Sector Projects (the "DFI BF principles"). These principles[119] are:

(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.

[117] EB 2022/136/R.5.
[118] RMO is currently reviewing the process to strengthen it further and ensure alignment with the proposed new funding model.
[119] DFI Working Group on Blended Concessional Finance for Private Sector Projects: Joint Report 2018 (English). Washington, D.C.: World Bank Group.

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

30. PSFP projects (NSOs) entailing the use of blended finance are subject to an additional independent review 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 the final documentation to the Executive Board to show clearly how the operation complies with the DFI BF principles, including the calculation of minimum concessionality. In the context of the proposed PSFP funding reform, IFAD will review its current NSO processes – for example, those related to the governance of blending non-concessional and concessional resources. This review will be conducted utilizing best multilateral development banks' practices to determine whether additional governance measures are warranted. The result of this assessment and any proposed changes will be reflected in the guidelines that IFAD will develop.

D. PSFP governance

31. Governance of the PSFP currently involves the following bodies:

(i) The Executive Board has general oversight of the PSFP and holds the exclusive right to approve all PSFP projects and funding proposals. The Executive Board will remain the ultimate decision-making authority for every private sector investment under the PSFP and will approve all project proposals and relevant strategies and policies. In 2019, the Board approved the Private Sector Engagement Strategy 2019-2024; in 2020, the Framework for IFAD Non-Sovereign Private Sector Operations; and in 2022, the Policy on Disclosure of Documents for Non-Sovereign Private Sector Operations.

(i) The PSFP advisory committee provides strategic guidance and general feedback on the PSFP pipeline and programme activities. The committee's current members are donors and contributors providing supplementary financial support to the PSFP, including representatives from IFAD.

(ii) The OSC and IRC review individual transaction features. QAG performs an arm's length review.

32. As part of the framework for implementing the new PSFP funding modalities planned for submission to the Board in the third quarter of 2024 (commitment 1.4, monitorable action 14), Management will be reviewing these arrangements based on lessons learned and best practice in other organizations. Management will then present updated PSFP governance measures to the Executive Board. The guiding principle will remain strong oversight from the Executive Board.

V. Lessons learned

33. Most IFIs have developed programmes to engage directly with the private sector. The lessons learned by these institutions are relevant to IFAD, as it seeks to ramp up its PSFP and other forms of engagement with the private sector. Selected lessons are described below and reflected in IFAD's proposed approach described above.

34. **International Development Association (IDA) - Private Sector Window (PSW).**[120] As part of the Eighteenth Replenishment of IDA (IDA18), a 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 the private sector to achieve the Sustainable Development Goals and IDA18 objectives, including the creation of better, more inclusive employment opportunities. While implementation was slow at first, with only one project approved in 2017, utilization of the facility has increased with a now aggregate US$3.19 billion committed (as of April 2023) in support of private sector financing in IDA-eligible countries. Two years into implementation, there was increased demand for the Blended Finance Facility, Risk Mitigation Facility, Local Currency Facility and the MIGA Guarantee Facility,[121] prompting IDA to allocate larger amounts to these four facilities.

35. Lessons learned from the IDA PSW experience to date include:

(i) The impact of PSW and capacity to deliver require flexible eligibility criteria for use of the PSW resources, proven capacity in executing agencies to leverage existing programmes and client relationships in the areas targeted by the PSW, the availability of a pipeline of suitable projects for PSW funding, project gestation periods in different sectors and the availability of requisite staff training and communication, as well as relevant approval processes. Implementation requires, among other things, creating governance structures, developing product and staff rules and guidelines and educating staff on the use of the different products across several facilities.

(ii) The PSW can deliver successful interventions, even in challenging contexts. An evaluation of the PSW shows that its participation enabled the International Finance Corporation (IFC) and MIGA to support high-risk projects in markets and sectors beyond what would have been feasible without it. IDA, IFC and MIGA, for example, have helped turn a barely functioning telecom sector in Afghanistan around after decades of conflict.

(iii) Financial sector projects have the greatest potential for use, accounting 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 of these sectors.

(iv) The midterm review of the PSW highlighted the potentially large number of small projects (typical for fragile and conflict-affected situations and low-income IDA countries) and pointed to greater use of programmatic platforms both to increase efficiency and control costs.

36. **African Development Bank.** Over the past decade, approvals of NSOs have increased significantly, helping to enhance the AfDB'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

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[120] The World Bank Group's Experience with the IDA Private Sector Window: An Early-Stage Assessment.
[121] MIGA = Multilateral Investment Guarantee Agency.

and social progress through transformative projects and programmes.[122] Key driving forces for successful implementation have included strong corporate commitment and internal specialized capacity hosted in a dedicated department, as well as streamlined internal review processes for NSOs. In order to de-risk its growing NSO exposure in fragile situations, already in 2015 AfDB had created the Private Sector Facility (PSF) as part of its African Development Fund.[123] The PSF has been funded by ADF-replenishing donors from ADF-13 to ADF-15, for a total of US$645 million, equivalent to approximately 4 per cent of total replenishments during ADF-13 to ADF-15. A further allocation to the PSF was reportedly requested in ADF-16. The PSF is deployed to mitigate the risks and thereby reduce the exposure of NSOs in fragile situations and can cover up to 50 per cent of the risk assumed by AfDB in these transactions. The US$645 million of the PSF mobilized to date mitigates the risks of an approximately US$1.8 billion AfDB NSO portfolio.

37. Key lessons learned from AfDB's experience are:

(i) Projects should be guided by clear eligibility criteria and prudential risk parameters;

(ii) Both moderate and high-risk-rated projects should be covered with a clear risk appetite, with accompanying governance to avoid moral hazard;

(iii) An active continuous portfolio review should be conducted to mitigate the risk of project losses; and

(iv) For de-risking and the preservation of its credit rating (AAA), AfDB requires credit enhancement via the PSF for its NSOs in LICs or LMICs.

38. **Asian Development Bank (ADB).** ADB has introduced the Private Sector Window (PSW) on a pilot basis during the Asian Development Fund's Thirteenth Replenishment[124] to help expand private sector operations in group A countries and a wider range of sectors, including new ones, and non-traditional energy infrastructure.[125] During the recent midterm review[126] of the PSW, future application of the window to NSOs in group B countries was also discussed. The PSW provides for five blending modalities: (i) co-investment grants, in the form of direct grants or funded participation, with ADB loans or other loans; (ii) viability gap funding; (iii) capped foreign exchange depreciation cover; (iv) cover for foreign exchange hedging costs; and (v) credit guarantees and risk-sharing, which may be for first or partial loss cover.

39. Key lessons learned are:

(i) Appropriate independent governance for a blending facility can be organized internally in the case of ADB PSW through an independent Blended Finance Committee. The committee takes rigorous steps in its decision-making process to safeguard the allocation and deployment of PSW resources to ensure they are being utilized only for transactions that meet the PSW eligibility criteria; and

(ii) Despite the extension to group B countries that was discussed, the instrument will remain almost entirely focused on supporting NSOs in LICs and LMICs.

40. **International Finance Corporation.** IFC has been the leading development finance institution focusing exclusively on private sector development, including through blended finance. A recent study covering the period 2006–2013 showed

[122] Sixteenth General Replenishment of the Resources of the ADF (ADF-16) Second Replenishment Meeting, 5-7 July 2022.
[123] African Development Fund.
[124] For the four-year period 2021–2024.
[125] ADB Pilot Private Sector Window to Promote Private Sector Operations in Group A Countries (Supplementary Note).
[126] ADF 13 (2021–2024), Midterm review: pilot private sector window, March 2023.

that IFC committed 39 investment transactions using blended finance, three quarters of which were through local financial intermediaries, where every dollar of concessional finance to financial intermediaries 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 2013, the Global Agriculture and Food Security Program (GAFSP) Private Sector Window was created as the first blended finance 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 (and compensating IFC with management fees of 8 per cent on the US$300 million investment facility). One condition imposed, however, was that IFC would have to invest a comparable 1:1 ratio with GAFSP de-risking funds. The GAFSP portion was typically a subordinated tranche but could also be a lower interest rate tranche or tranche with a longer grace period and longer repayment tenor. One result of requiring co-investment by IFC, even with minimal de-risking by GAFSP, was that the investment had to meet IFC investment criteria. A reform process called GAFSP/BIFT 2.0 is under way that could also allow other DFIs, like IFAD, to use the resources for blending purposes.[127]

41. Key lessons learned from IFC work include:

(i) Blended finance can make a difference in moving a project forward and scaling up climate finance;

(ii) Blended finance approaches should not be attempted lightly – discipline and strategic deployment are critical; and

(iii) Application of blended balance sheet finance to NSOs in the agricultural and food space is feasible.

[127] Decision Note for the GAFSP's Business Investment Financing Track (BIFT), with Technical Note for Re-Tooling the GAFSP with a revised Intervention Model for the BIFT, 15 March 2023.

IFAD's updated approach to engagement in fragile situations

I. Fragile situations: Setting the scene for this updated approach

1. This annex describes **IFAD's updated operational approach to working in fragile situations**, providing practical guidance for organizational programming and practice in such contexts. The approach builds on: (i) the IFAD13 Business Model and Financing Framework paper presented to the second session of the IFAD13 Consultation; (ii) IFAD's paper for the Executive Board, Addressing fragility through a focus on rural livelihoods: a reflection on IFAD's role; (iii) internal report of the cross-departmental working group on IFAD's interventions in conflict-affected situations; (iv) lessons to strengthen IFAD's approach to fragility, as contained in the Report of the Consultation on the Twelfth Replenishment of IFAD's Resources; (v) IFAD's Special Programme for Countries with Fragile Situations; and (vi) IFAD's Strategy for Engagement in Countries with Fragile Situations. The approach also reflects best practices from IFAD's partners in the United Nations, World Bank and other multilateral development banks (MDBs)[128] and is informed by the lessons from IFAD-funded programmes and the experience of staff in fragile situations, as also detailed in the May 2023 paper for the Executive Board.

2. Working to promote rural people's resilience and sustainable pathways out of poverty in fragile contexts has been part of IFAD's core business since its creation over 40 years ago in response to the food crises of the early 1970s. This is because fragility as defined below is present in different forms in many rural areas where IFAD operates, is often closely linked with poverty and food insecurity and can be a significant obstacle to sustainable progress out of poverty. Moreover, different aspects of fragility can also result in rural people's increased vulnerability to different types of shocks – often in gendered ways or ways that reproduce and intensify existing social inequalities and patterns of exclusion. The distinct challenges of fragility have become more evident in recent years, causing many development actors to pay more attention to fragility as a contextual factor that can bear upon their mandates, including but not limited to the food security and nutrition and rural development domains.

Box 1
IFAD's definition of fragility

> "…a condition of high vulnerability to natural and man-made shocks, often associated with an elevated risk of violence and conflict. Weak governance structures along with low-capacity institutions are a common driver and consequence of fragile situations. 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." IFAD Strategy for Engagement in Countries with Fragile Situations (2016).

3. **Poverty is increasingly concentrated in fragile situations.** Poverty is already becoming more concentrated in fragile situations, and the trend is growing exponentially. According to recent reports, approximatively 48 per cent of the rural poor lived in contexts defined as fragile or conflict-affected by the World Bank in 2019. By 2030, this figure is expected to increase to at least 66 per cent.[129]

[128] United Nations and World Bank, 2018. *Pathways for Peace: Inclusive Approaches to Preventing Violent Conflict*. World Bank, 2020. World Bank Group Strategy for Fragility, Conflict, and Violence 2020–2025.
[129] See footnote 15.

4. **The factors contributing to fragility are complex, multidimensional and often mutually reinforcing.** The dimensions of fragility are economic, environmental and climate, political and institutional, security, and social.[130] The dimensions of particular operational relevance to IFAD are: (i) institutional; (ii) environmental and climate; and (iii) social.

- In relation to the **institutional dimension** (systems, rules and organizations, both formal and informal), when institutions are fragile and dysfunctional, people are acutely vulnerable to both man-made and natural shocks, which can include: (i) economic shocks, such as food and fertilizer price hikes stemming from the war in Ukraine; (ii) severe weather events – storms, droughts, floods; and (iii) natural hazards – such as animal diseases, locust plagues, pandemics and earthquakes. Weak institutions in fragile situations make it much harder to tackle structural conditions that lead to poverty and food insecurity, such as lack of investment in human and physical capital and the failure to deliver needed services to rural communities.
- In relation to the **environmental and climate dimension**, the associated risks impact rural livelihoods and food systems, fuelling vulnerability. According to the International Network on Conflict and Fragility (INCAF) Common Position on Climate Change, Biodiversity and Environmental Fragility, "Climate change, biodiversity loss and environmental degradation fuel fragility and in turn, fragility makes it hard to adapt to climate change, reduce and manage climate-related risks, and cope with the impacts of biodiversity loss and environmental degradation."[131] Climate change is recognized as an exacerbator, or threat multiplier, particularly when there are pre-existing stresses on natural resources, common in fragile situations.[132]
- **In relation to social issues, acute social inequalities and exclusion are factors of fragility in their own right, as they may lead to violence and undermine the legitimacy or capabilities of public institutions.** In many of the rural areas where IFAD operates, social inequalities and exclusion most often have gendered features, as they more frequently adversely affect poor rural women and girls. People with disabilities and Indigenous Peoples are often adversely affected by social inequalities and exclusion as well. Inequalities are also a vulnerability factor in the presence of other dimensions of fragility, such as institutional fragility and high exposure to climate shocks. Droughts, floods and storms, for example, kill more women than men due to structural gender inequalities.[133]

5. **Fragility and conflict often sit on a continuum.** While there are always exceptions, as a rule, more fragile situations are more likely to experience crisis and conflict. Conflict often ensues when there are deep-rooted grievances and high levels of political, social and economic exclusion, and when relationships and mechanisms for dispelling tensions between elite actors without violence (dialogue, justice systems, elections) have broken down or were never built. Conflict drives further fragility, as new grievances are generated and formal and informal institutions become even weaker, leading to cycles of conflict and fragility. As poverty, insecurity, criminality, loss of resilience and weak institutions become entrenched, helping countries escape these cycles has become a critical challenge to international development, as seen most recently in Sudan.

[130] OECD, 2022. States of Fragility 2022. States of Fragility.
[131] INCAF, 2022. Available here.
[132] IFAD, 2022. IFAD Briefing Note - Climate and Conflict: What Does the Evidence Show?
[133] UN Women, 2017. Facts and Figures: Humanitarian Action. Closing the Gender Gap in Humanitarian Action.

Box 2
Climate and conflict

There is a growing consensus that climate change increases the likelihood of conflict, acting as a threat multiplier, especially where its effects are combined with land tenure issues, weather-sensitive economic activities, weak institutions and fragile governance, poverty, and inequality. Evidence points to a link between climate change and low-intensity violence, rather than international armed conflict. The Intergovernmental Panel on Climate Change (IPCC) notes that "agriculturally dependent and politically excluded groups are especially vulnerable to drought associated conflict risk," emphasizing that "climate variability and extremes are associated with more prolonged conflict through food price spikes, food and water insecurity, loss of income and loss of livelihoods" (IPCC cited in IFAD Briefing Note).

The impact of climate finance in mitigating conflict cannot be gauged due to lack of data; however, the more fragile a country is, the less climate finance it receives. Measuring funding per capita, the most fragile situations received just US$2.10 per capita compared to US$10.80 per capita in fragile situations and US$161.70 per capita in non-fragile situations (including the small island developing states). Climate finance needs to be better targeted to fragile situations, and multilateral organizations can play a role in helping states with fragile and conflict-affected situations (FCS) obtain access to climate finance and integrate fragility and conflict analysis into climate finance projects to ensure that climate responses take full account of the fragile context and are conflict-sensitive. Likewise, it is important to ensure that development efforts in fragile contexts are climate-proof.

From: **IFAD. 'IFAD Briefing Note – Climate and Conflict: What Does the Evidence Show?'** Rome: IFAD, November 2022. Available here.

6. A growing understanding of the complex challenges of fragility **has led to a recognition that business-as-usual approaches – applying the same policies, programmes and practices used in stable contexts – do not work to address fragility.** The multiple challenges associated with working in fragile situations have precipitated a move away from the strict delineation and sequencing of humanitarian, development and peace responses of the donor community. The **humanitarian- development-peace (HDP) nexus** was affirmed at the World Humanitarian Summit in 2016 in recognition of the need for a combination of short- and long-term approaches to address such contexts. These approaches need to engage multiple actors working simultaneously towards collective outcomes and, wherever feasible, reinforcing the capacities and resilience at national and local levels.[134]

7. **IFAD has decades of experience in fragile contexts,** guided by dedicated tools – some focused on specific dimensions or stages of fragility, such as crisis and recovery. In 2006, the Fund adopted a Policy on Crisis Prevention and Recovery, followed by Guidelines for Disaster Early Recovery. In 2016, IFAD adopted a Strategy for Engagement in Countries with Fragile Situations following a corporate-level evaluation that recommended that the Fund develop an overarching policy on fragility, including a new definition, that spells out the principles for IFAD's approach to engagement in fragile situations.[135] To support the implementation of this strategy, a Special Programme for Countries with Fragile Situations was designed in 2019. IFAD also has a 2022 strategy for small island developing states as a group of countries with shared elements of fragility.

8. As elaborated in the May 2023 paper for the IFAD Executive Board on IFAD's experience in fragile contexts,[136] IFAD's experience in fragile settings shows that achieving positive results in these contexts is possible but requires investment in fragility assessments and fragility-adapted supervision, tailored financial management oversight and procurement and institution-strengthening, particularly in crisis situations and low-security conditions. Simple designs, effective partnerships and the use of flexible alternative delivery mechanisms, where needed, have also been found to be key factors in the effective delivery of programmes in fragile contexts.

[134] OCHA, 2017. New Way of Working.
[135] IOE. 2015. Corporate Level Evaluation on IFAD's Engagement in Fragile and Conflict-affected States and Situations.
[136] IFAD, 2023. Addressing fragility through a focus on rural livelihoods: a reflection on IFAD's role (EB 2023/138/R.2).

9. Concerning partnerships in particular, a recent subregional evaluation of the Fund's work in the Sahel[137] has underscored the importance of IFAD working closely with governments and other agencies and making full use of existing institutional structures, when functional and effective, while identifying alternative delivery options, including the involvement of grassroots organizations, when needed. The evaluation also found that IFAD's experience shows that local natural resource user groups are often important for addressing fragility with respect to natural resources and strengthening sustainable management, and that producers' and community-based organizations are critical to building resilience in fragile situations.

Elements of simple design.

i. Limited geographic scope (1 to 2 regions/states).
ii. Project components focused on small-scale or community-based infrastructure and human and social capital building.
iii. A phased approach, starting where possible in more secure areas, with pilots and start-up packages/tool kits.
iv. Limited partnerships with credible local partners.
v. Low-value procurement and limited funds flow.
vi. Built-in contingency plans and flexibility to allow for the shifting of resources as situations evolve.

10. The subregional evaluation also found that achieving efficiency gains in fragile contexts is challenging but possible. Efficiency ratings from country programmes in Burkina Faso, Chad, Mali, Mauritania, Niger and Nigeria were higher than for the rest of the West and Central Africa (WCA) portfolio and comparable to the entire IFAD portfolio. Among the reasons for this finding are that IFAD intensified its supervision and implementation support to counterbalance the challenges of the limited institutional capacities usually found in fragile contexts. Over time, project staff and country teams learned to improve local financial and procurement procedures, leading to accelerated disbursement, cash flows and less time for project procurement. However, project management costs tended to increase during implementation, exceeding the cost estimates at design. This was particularly true for hard-to-reach places, where security measures increased costs. New shocks and deteriorating fragility situations put additional pressure on project efficiency.

11. **Current circumstances make it important for IFAD to refresh its operational approach, based on its experience and that of others in the international financial institution (IFI) landscape.** There is general consensus in the international community that fragility is becoming more pervasive, with a growing incidence and confluence of environmental and climate shocks and stressors, conflict and a growing concentration of extreme poverty in contexts with a combination of social, environmental and institutional aspects of fragility. For an institution like IFAD with many years of experience in these settings, these trends require the strengthening of existing approaches to acknowledge that working in fragile contexts is increasingly central to its business model. This approach responds to the need to improve IFAD's ability to operate in fragile situations as an increasingly common part of its work. Furthermore, the growing incidence and recognition of the importance of fragility is also causing new actors, including other IFIs, to sharpen their focus and tools related to fragility. This offers IFAD new opportunities to leverage the work of other actors and build partnerships that can boost its capacity for positive impact in these contexts, while facilitating cost-effectiveness in its work in fragile situations. These considerations are at the root of the decision to develop this updated approach. The sections that follow outline the updated approach, focusing on key principles of engagement (section II) and key features of an updated operational approach (section III). Based on this paper, and once the fragility unit is in place, detailed guidelines for specific aspects of the approach will be developed.

[137] IOE, 2023. Subregional evaluation of countries with fragile situations in IFAD-WCA. Learning from experiences of IFAD's engagement in the G5 Sahel countries and northern Nigeria.

II. Key principles of engagement in fragile situations

Box 3

> "IFAD has a critical role to play in fragile and conflict-affected states and situations in promoting sustainable inclusive development and rural transformation. A very large number of people live in severe poverty in such contexts. As the only multilateral development organization that focuses exclusively on smallholder agriculture development in rural areas, the Fund has a unique responsibility to support local production and livelihoods systems in fragile situations, and help poor rural people improve their incomes, nutrition, food security and well-being."
> Corporate-level evaluation, IFAD's engagement in fragile and conflict-affected states and situations (2015).

Key principles of engagement

12. IFAD's work in fragile contexts has implicitly been guided by a several principles of engagement. This updated operational approach makes them explicit to ensure alignment across the institution and reflect good practice in the broader community, including the United Nations system and IFIs, in this domain.

13. **Build the long-term resilience of rural people, their livelihoods and their institutions.** IFAD-funded programmes in fragile contexts should focus on building the resilience and reducing the vulnerability of the rural poor, their livelihoods and their institutions. This includes reducing vulnerability to natural and man-made events and processes, the impacts of climate change and severe weather events, violence and political crisis, disease and pandemics. Applying this principle requires a deep understanding of the drivers and sources of vulnerability and the approaches and adaptations (physical, financial, human resource based) that can heighten the resilience of communities and institutions. While resilience-building is also a key objective in stable contexts, it is critically important in fragile contexts because of the potential impact on IFAD beneficiaries from multiple interconnected threats and risks – e.g. the need to consider not only resilience to issues like drought but rather, drought combined with political instability, weak institutions, corruption, criminality and/or violence.

> ***"Caisses de résilience"*** *in Burundi, Central African Republic, Democratic Republic of the Congo, Liberia and Mali aimed at heightening community resilience to conflict, institutional instability and/or climate change.*
> *This approach is based on lessons from past evaluations that highlighted the need for a combination of social, technical and financial community work to produce a real impact on the resilience and livelihood of populations made vulnerable by recurrent conflicts.*

14. **Focus on prevention.** IFAD-funded programmes should seek to identify and address drivers and triggers of fragility that are within their scope of action and strengthen sustainable institutions and mechanisms to address those drivers. This could include interventions to reduce the impact of food, fuel or fertilizer price hikes, strengthen mechanisms for settling and preventing disputes between pastoralists and farmers, build capacity for land titling and agreements for protecting and accessing critical natural resources (forests, water sources, etc.). IFAD will strengthen its capacity for analysis, monitoring and preparedness to address these potential drivers or triggers of fragility, notably by strengthening and honing its current fragility and risk assessment tools – for example, fragility assessment, integrated country risk matrix (ICRM), integrated project risk matrix (IPRM) and Social, Environmental and Climate Assessment Procedures (SECAP).

15. **Ensure that IFAD-funded interventions do no harm.** When channelling resources (including finance, personnel and programme activities) into fragile situations, there is always the risk of unintentionally exacerbating existing or creating new sources of fragility. For example, resources may (or may be perceived to) deepen the inequalities between groups, be captured by illegitimate actors or elites, encourage or enable unsustainable resource extraction or undermine informal institutions that underpin livelihoods. The "do no harm" principle requires IFAD to consider and identify potential harms that may arise as effects of its engagement and to determine how they might be prevented or mitigated. The potential for harm and mitigation efforts should be carefully monitored, and

approaches adapted as needed to ensure that the benefits of IFAD-funded programmes clearly outweigh any costs. This also means that IFAD should seek to maximize the potential positive impacts of its activities on fragility – for example, by strengthening local capacity for peacebuilding, building sustainable institutions and delivering benefits to all communities.

16. **Remain engaged.** During crises and emergencies, IFAD should seek appropriate ways to remain engaged and continue to support communities. While some staff may have to withdraw and normal programme activities may be suspended, whenever possible IFAD should identify alternative means of supporting rural households and communities, working with NGOs, the United Nations and local institutions where they can be effective. By staying engaged, IFAD can work to preserve development gains, enable continuity and a development focus, protect local government service delivery and benefits to local populations (particularly women, girls and others who may be in vulnerable situations), enhance local ownership and self-governance and help rural people leverage opportunities to improve their livelihoods during transitions to peace and stability. Remaining engaged may be challenging, and section III offers some operational approaches to tackle these challenges. It is important to note **IFAD is not a humanitarian organization and is not equipped to respond to humanitarian needs during crises, whether environmental or man-made (see figure 1).** However, the Fund has an important role to play in recovery and rebuilding, as evidenced, for instance, during the COVID-19 pandemic and in recent crises associated with the war in Ukraine and droughts in the Horn of Africa.

Figure 1
Mapping IFAD's engagement around fragility

17. **All IFAD-funded programmes and interventions in fragile situations should be informed by a deep understanding of the context** and designed, tailored, implemented, monitored and evaluated to maximize their impact on relevant dimensions of fragility, insofar as these directly impact the pursuit of rural resilience and poverty eradication. Without a detailed analysis of the context and the tailoring of programme activities, there is a risk that IFAD-funded programmes will either be irrelevant or cause harm and use resources inefficiently. Thus, addressing fragility will be a core element of IFAD's operational focus.

Box 4
Theory of change – a summary

Fragility is a key driver of poverty and food insecurity along with climate change and economic shocks. Fragility is driven by political factors, unresponsive institutions and a lack of resilience in response systems. To reach IFAD's goal of **overcoming poverty and food insecurity and building the resilience of rural people**, at least some of the drivers of fragility that are nearer to IFAD's mandate and most directly impact its target group need to be addressed.

IF IFAD's work is informed by a deep analysis of the context, **AND** it uses its projects and interventions to:

- Build resilient institutions, infrastructure and communities;
- Prevent triggers of crisis where possible;
- Remain engaged and provide appropriate support to communities through periods of fragility; and
- Ensure that its programmes do no harm,

THEN

IFAD-funded projects and other non-lending activities could make a valuable contribution to reducing drivers, tensions and vulnerabilities associated with fragility, particularly at the local level, with the ultimate goal of reducing rural poverty and food insecurity and building rural resilience.

Assumptions:

IFAD works in close collaboration and cooperation with others also seeking to address fragility drivers – the United Nations, IFIs, bilateral development partners, governments, civil society and local communities. IFAD has the resources and capabilities to work effectively in these contexts.

Counterfactual:

If IFAD does not actively use its projects and resources to address fragility, there is a risk that it will unintentionally exacerbate the situation.

III. Key features of IFAD's updated operational approach

18. In alignment with the 2019 Special Programme for Countries with Fragile Situations, IFAD operates through **four entry points** to promote resilience in fragile contexts, while at the same time helping to mitigate the social, environmental and institutional fragility that falls within its mandate. These entry points are:

(i) Strengthening local institutions and communities for effective local governance and service delivery;

(ii) Increasing food and nutrition security through enhanced food systems;

(iii) Fostering sustainable natural resource management, including disaster preparedness and climate adaptation; and

(iv) Boosting women's role in building resilient communities.

19. Building on the above principles of engagement and these four entry points, IFAD's updated operational approach is characterized by the following **eight interconnected and mutually reinforcing features.** Detailed guidance on each of them will be prepared, as needed, with support from the IFAD fragility unit once it is up and running. These features are:

- An enhanced fragility diagnostic;
- Strengthened risk management approach in fragile situations;
- Improved fragility programming;
- Targeting and inclusion of women, youth, Indigenous Peoples and persons and groups who may find themselves in vulnerable situations due to disabilities, displacement, lack of resources, language and literacy barriers, distance, formal and legal impediments, cultural practices, social norms and other aspects;
- Strengthening IFAD's learning from results using smarter tools;

- Strategic partnerships;
- Increased staff expertise and capacity; and
- Stronger operational guidance.

Enhanced fragility diagnostic

20. While there are often similarities between different countries, every fragility situation is unique. IFAD country strategies in fragile contexts are already required to include fragility assessments. However, it was found that the current fragility analysis does not sufficiently capture the root causes, dimensions and complexity of fragility and how they affect IFAD's target groups, as highlighted in the subregional evaluation of the Independent Office of Evaluation of IFAD (IOE).[138]

21. Enhanced fragility assessments should identify the range of political/institutional, social, economic, security and environmental causes and effects of each situation of fragility, including both deep-seated structural causes and more proximate factors.[139] They should consider the gender dimensions of each of these factors, recognizing that fragility is typically strongly gendered in its manifestations. The analysis should also assess how long the fragile conditions are likely to persist and whether they will be present in limited geographical jurisdictions within a country, nationwide, or even regionally. It should identify how other international and national actors, including government, multilateral and bilateral agencies and civil society organizations, are attempting to address fragility in a given context, so that IFAD can build partnerships and synergies with their work, as relevant. Most importantly, fragility assessments should closely connect fragility to rural people's livelihoods and institutions and to the pathways available to them to exit poverty – thus making them actionable for IFAD through country strategic opportunities programme (COSOP) and project design.

22. Under this enhanced approach, fragility assessments will continue to inform IFAD's country strategies and, moreover, will be applied in project design, where appropriate. However, the structure and templates of these assessments will be revisited, and new sources of data – notably data and analyses produced by other relevant partners – will be mobilized systematically to enhance the quality and practical relevance of the diagnostics. The scale and depth of the analysis required will depend on the complexity of the context. The SECAP already captures the social and environmental dimensions of fragility and can be utilized to inform fragility assessments.

Strengthened risk management approach in fragile situations

23. IFAD should implement a strengthened risk management approach in fragile situations that more fully acknowledges the higher levels of inherent risk and takes action to mitigate them. In full alignment with the Enterprise Risk Management Policy, IFAD should apply a fragility lens to all risk categories. The analysis in fragile situations should be more granular to adequately inform the ICRM and IPRM for COSOP and project designs, respectively. The "fragility and security" risk category in the IPRM taxonomy will need to be broken down and assessed against the multiple drivers identified in the fragility assessment. These drivers may pose programme delivery risks associated with political, security, economic and environmental factors that the programme must be prepared for. In line with

[138] See footnote 126.
[139] According to the World Bank, these may include: "risks related to the distribution of power; the political settlement; the human rights situation; women's inclusion in peace settlements and political processes; broader governance issues; land and natural resources; access to basic services; the health of the labour market and how much economic growth is benefitting the entire population; and broader issues of social cohesion, including perceptions of fairness and inclusion among groups and regions, as well as between the state and its citizens." World Bank Group: Strategy for Fragility, Conflict and Violence, 2020-2025.

SECAP requirements, any associated Environmental, Social and Climate Management Frameworks/Environmental, Social and Climate Management Plans[140] will be revised to adequately reflect risks associated with fragile situations.

Improved fragility programming

24. IFAD's improved fragility programming would cover both **country strategies and programmes**. COSOPs and country strategy notes (CSNs) will be systematically built on the revised fragility diagnostic with input from SECAP and the ICRM. **The COSOP/CSN theory of change should identify drivers of fragility and entry points to address them to support the resilience of IFAD's target groups – for example by guiding action to address climate or environmental factors of fragility, social factors such as acute inequalities and exclusion or institutional factors such as severe institutional weaknesses or limited public institution legitimacy**. When different dimensions of fragility are present, their combination may also be reflected in the design of programmatic responses that simultaneously address climate action and social inclusion or climate action and local (rural) conflict mitigation.

Box 5

Inclusive Blue Economy Project (I-BE) in Haiti

I-BE in Haiti exemplifies programming by addressing the specific challenges faced by fragile rural coastal communities, integrating various components such as sustainable economic ecosystems, conservation activities and nutrition improvement. It focuses on creating alternative livelihoods, supporting local value chains, conserving natural resources and promoting gender equality and empowerment – all within a sustainable development framework. The I-BE project emphasizes partnerships with state institutions, the private sector and local elected officials to ensure the sustainability of investments. By promoting capacity- and resilience-building approaches, it strengthens support mechanisms and increases the potential for long-term positive impacts on the targeted communities in Haiti.

25. IFAD-funded programmes in fragile contexts should focus on one or more of the four aforementioned entry points (strengthening institutions, building resilient food systems, supporting sustainable natural resource management and boosting women's roles). Efforts will be directed to ensuring project designs are less complex and more realistic in regard to local institutional implementation capacity.

26. IFAD's investments must be able to **adapt swiftly to changes in context**. A fragility-sensitive project design may include: (i) contingency plans; (ii) a multiphased programmatic approach (MPPA); and/or (iii) a crisis and disaster risk reduction component. Should a situation deteriorate or change, it will trigger the activation of a contingency plan, as defined during design (e.g. refocus of the project on food production and asset protection). In some contexts, an MPPA would be the preferred choice to ensure long-term engagement for strengthening local institutions. In other situations, a dedicated crisis and disaster risk reduction component would enable projects to respond and adapt quickly in crises (e.g. heavy flooding). Since the component would already be fully designed and costed, funds could quickly be withdrawn from "unallocated categories" to activate the component should the need arise. Reallocation of funds from other existing components or other IFAD-funded projects in the same country could also be considered, as provided for under the current modalities in the IFAD Policy on Project Restructuring.[141] In situations where fragility considerations cross national borders – for example, in the case of pastoralist communities – **a regional approach** will be considered (e.g. the Joint Programme for the Sahel in Response to the Challenges of COVID-19, Conflict and Climate Change [SD3C][142] covering several countries, including Burkina Faso, Chad, Mali, Mauritania, Niger and Senegal).

[140] IFAD, 2021. IFAD's Social, Environmental and Climate Assessment Procedures.
[141] EB 2018/125/R.37/Rev.1.
[142] EB 2020/131(R)/R.8/Rev.1.

Box 6
Sustainable Natural Resources and Livelihoods Programme (SNRLP) in Sudan

SNRLP in Sudan aims to increase the food security, income and resilience of pastoralist, agro-pastoralist and smallholder crop farmers engaging in joint natural resource governance and management and natural resource-related businesses in targeted landscapes in nine states. When the conflict in Sudan erupted in mid-April 2023, it coincided with preparations for the agricultural season. SNRLP prioritized two types of assistance to smallholder farmers in the five states where the security situation was relatively calm: (i) access to machinery for land preparation, using soil and water conservation techniques; and (ii) access to improved seed varieties, distributing seeds provided by the Food and Agriculture Organization of the United Nations (FAO) humanitarian response, which benefitted over 23,000 farmers in River Nile, Kassala, Gedaref and Sennar States.

27. In situations where IFAD cannot be present to deliver on its fiduciary responsibilities or where institutional capacities are extremely weak, third-party assistance can be sought for monitoring and field verification, financial management, procurement responsibilities and/or the delivery of technical assistance (as in the IFAD Yemen portfolio).

Targeting and inclusion of vulnerable people (women, youth, Indigenous Peoples and persons with disabilities)

28. Additional emphasis is needed on boosting women's role in building household and community resilience, while at the same time prioritizing investments in the resilience of poor rural women, girls, youth, Indigenous Peoples and persons with disabilities, given their high vulnerability in many types of fragile situations – e.g. situations of social violence or limited capacity to prevent or respond to climate shocks. **This includes specific projects (or project components) that directly target these groups and addressing gender inequality and youth exclusion as a specific area of concern in projects and programmes**. Results will be reported through yearly reporting against the indicators included in project logical frameworks (for both IFAD core indicators and project-specific indicators).

Box 7
Outer Islands Food and Water Project (OIFWP) in Kiribati

OIFWP in Kiribati aims to enhance self-reliance and social capital within supported communities by providing households with the necessary resources and technical skills to plan and implement community development interventions. Key focus areas include improving access to clean water and promoting household food production. The project also addresses the issue of low nutrition awareness through behavioural change and nutrition education initiatives. Special attention is given to vulnerable groups, especially women and young people aged 15-30. The project employs a community-driven development approach and an inclusive targeting strategy that involves households and the entire community while addressing the specific needs and challenges of women and youth. Notably, as of March 2023, a significant proportion (62 per cent) of island facilitators and community facilitators were women, as were 8 out of 10 project management unit staff. Furthermore, women held 1,106 leadership positions in water-user groups, accounting for some 44 per cent of these positions.

Strengthen IFAD's learning from results using smarter tools

29. It is important for IFAD to strengthen its learning from operations in fragile contexts through shorter learning cycles and more frequent assessment and review by project supervision and implementation support missions. At design, IFAD should continue working with country partners to ensure that realistic, monitorable objectives and outcomes are identified to track project progress.

30. During design and through its support for implementation, IFAD should devote special efforts to identifying monitoring tools such as geospatial mapping, ICT beneficiary feedback and remote sensing technologies, which can facilitate evidence-based decision-making. During implementation, information and communications technologies for development (ICT4D) and digital monitoring and evaluation (M&E) systems have the potential to facilitate the management of operations in fragile contexts, particularly in cases of limited access on the ground in high-risk locations.

31. Given the diversity of fragile contexts, the proposed fragility-sensitive approach for the design process would not be required for every project in fragile situations;

rather, it, or parts of it, should be used as and when the fragility assessment suggests there is sufficient uncertainty in the context to justify the additional investment in design. Notwithstanding, enhanced monitoring of context and risk indicators will be required in every fragile context to permit timely adaptation should conditions change significantly.

Strategic partnerships

32. There is scope for IFAD to broaden and deepen strategic partnerships in fragile situations, contributing to development outcomes around the HDP nexus, in coordination with the work of sister agencies, the World Food Programme (WFP) and FAO, other development partners, IFIs, civil society organizations and the private sector. IFAD's aim in working at this nexus is to contribute as much as possible to the positive impact of other actors' humanitarian and peacebuilding efforts on local assets, capabilities and systems that serve rural communities and households by complementing their work with development investments that strengthen these assets and capabilities. IFAD will also consider working to build a fragility partnerships community of practice using its unique position as an IFI and United Nations agency; the aim is to bridge the gap between the MDB Working Group on FCV and other United Nations actors, particularly the Rome-based agencies (RBAs), as well as others that are focusing on fragility issues linked with rurality and food systems (in research, for example) to meet common objectives, for example in relation to smallholder farmers and food security and nutrition.

Box 8
Institutional and territorial strengthening in post-conflict Colombia

The Building Rural Entrepreneurial Capacities Project: Trust and Opportunity supported institutional and territorial strengthening in post-conflict Colombia, showcasing the integration of ICT4D in project design by utilizing a mobile phone app for gender and social inclusion training. This approach ensures wider accessibility, improved monitoring and cost-effectiveness. By tailoring the project to specific beneficiary needs, it enhances effectiveness and sustainability in addressing Colombia's post-conflict context.

33. Building on recent and ongoing practices (e.g. the joint regional SD3C programme in the Sahel, where each of the RBAs is leveraging its comparative advantage to support government policy and programming capacity, asset building or rebuilding informed by humanitarian practice and investment in community institutions and climate-resilient agricultural practices), IFAD can identify additional opportunities for joint analysis and country approaches. This includes exploring complementary programming with WFP and FAO in a small group of priority countries with fragile situations. Partnerships with MDBs and RBAs can promote greater access to fragility data and analysis to mitigate costs and foster mutual learning. In the coming months, IFAD will also operationalize its partnership with the United Nations Peacebuilding Fund and identify a group of countries where resources can be jointly deployed, focusing on local rural crisis prevention and women's and girl's empowerment. IFAD has recently joined the Global Network Against Food Crises and going forward can explore other key fragility-focused networks and communities of practice at both the country and global levels, always with a focus on cost efficiency and strategic prioritization.[143]

34. Going forward, South-South and Triangular Cooperation (SSTC) will also play an important role for IFAD in the context of a strengthened approach to partnership for improved practice in fragile contexts. The IFAD South-South and Triangular Cooperation Strategy 2022–2027 identifies resilience, fragility and employment among its areas of thematic focus. Operationalizing these areas of focus will entail seeking ways to promote learning across countries with situations of fragility, mainstreaming SSTC with a focus on fragility and interregional initiatives, on one or more of the practical entry points for IFAD's work in these situations and/or on

[143] Examples include INCAF, as well as MDBs' practice exchange forums on fragility and conflict.

how to effectively operationalize one or more of the eight features of this strengthened approach.

Box 9
How private sector engagement in fragile situations will be enhanced in IFAD13

IFAD actively seeks partnerships with the private sector in fragile situations to address unique challenges and leverage its expertise. Private sector engagement enables IFAD to mobilize additional resources and innovative approaches to support economic activities, create livelihood opportunities, build resilience and enhance the well-being of communities in fragile situations. IFAD's engagement with the private sector in fragile situations will be enhanced in the following ways in IFAD13:

(i) Enhanced fragility diagnostics:
- Incorporation of private sector perspectives, data and expertise in fragility assessments.
- Analysis of the private sector's role in driving economic activities and addressing fragility.
- Identification of specific challenges, opportunities and viable investments for private sector engagement.
- Utilization of private sector involvement to inform diagnostic tools, methodologies and business conditions.

(ii) Programming:
- Leveraging of private sector expertise, resources and innovation for economic activities and livelihood opportunities.
- Collaboration with the private sector in agricultural value chains, rural enterprises and market-based solutions.
- Development of tailored programming to attract investments, foster entrepreneurship and address fragility drivers.
- Partnerships for job creation and the targeting of vulnerable groups, particularly women and youth.
- Filling of gaps left by weak or collapsed public institutions through private sector engagement.
- Strengthening of the social contract, reduction of economic disparities and increased transparency through partnerships.
- Promotion of open competition, knowledge-sharing and skill-building for inclusive and resilient development.

(iii) Stronger support:
- Creation of mechanisms and platforms for effective private sector engagement and dialogue.
- Provision of targeted support and bridge access to finance, particularly for small and local private sector actors.
- Fostering of an enabling environment through policy dialogue, regulatory reforms and investment facilitation.
- Tapping into remittances, diaspora financing and private sector expertise for additional support.
- Leveraging of private sector involvement in service delivery and improvement of coordination with partners.

(iv) Strategic partnerships:
- Forging of strategic partnerships with private sector actors to leverage resources, knowledge and networks.
- Engagement in joint initiatives with the private sector to address fragility and promote sustainable development.
- Collaboration on research, innovation and best practices to improve interventions in fragile contexts.
- Strengthening of coordination, information-sharing and collective impact with private sector actors.
- Seek collaboration with external partners and private sector actors to lower costs and enhance efficiency.

Increased expertise and improved capacity

35. **A fragility unit with specific dedicated fragility expertise will be set up in the Operational Policy and Results Division (OPR)** to support operational delivery, policy and coordination and the gathering and sharing of knowledge and lessons across IFAD and with partners along the HDP nexus. Concrete actions include honing IFAD's current diagnostic and risk management tools for fragility situations and developing a realistic cost framework that covers the wide array of fragile situations for efficient planning and budgeting. The experts will advise country teams on aspects of design and implementation in fragile situations and nurture IFAD's partnerships around the HDP nexus. A community of practice on fragility led by the unit and comprised of regional focal points can be a source of advice and support for country teams as part of this enhanced approach. These roles can be complemented with a pool of external experts – individuals and institutions – that can be available as needed to support fragility assessments and provide expertise during design and implementation.

36. Depending on needs, the unit will support the development of **additional training courses to strengthen fragility-relevant skills** in country teams as part of IFAD's Operations Academy curriculum. Potential topics could include: (i) MPPA; (ii) fragility assessment; (iii) crisis sensitivity; (iv) financial management and procurement in fragile situations; and (v) monitoring, evaluation and learning in fragile situations. The development of these training courses is also expected to draw on the expertise of other institutions, including other IFIs (including the MDB Working Group on FCV, where IFAD is involved in the thematic working groups) and United Nations agencies. Wherever possible, the Fund will pursue joint training activities with these institutions.

37. IFAD will reflect on the experience of this new unit's initial years of work and consider the most appropriate and efficient way to ensure that needed capabilities for effective delivery in fragile contexts are not only developed but maintained over time. In doing so, it will build on the outcomes of the pilot as well as the experience of other members of the community (notably the MDB Working Group on FCV) with dedicated teams working on fragility-related challenges and approaches to deliver on the overall mandate of their respective organizations.

Stronger operational guidance

38. **Strengthened IFAD guidance for financial management.** IFAD will continue to carry out financial management assessment and control throughout the project cycle based on the risk-based assurance framework for both fragile and non-fragile contexts. It should deepen this analysis to understand the underlying causes of fragility and how they impact national and local institutions that provide public financial management services and fiduciary assurance. A high level of fragility likely requires acceptance of a higher fiduciary risk appetite and some degree of flexibility in procedures and processes, as well as the agility to swiftly adapt to changes. Based on this analysis, financial management approaches tailored to each country context will be drawn up to provide the best possible support to IFAD's target group and its institutions in the country programme. Sometimes, fragile situations can develop suddenly, and key issues may not have been considered if the project was designed and launched under non-fragile conditions. In such cases, IFAD teams will need to conduct rapid assessments to devise appropriate responses, based on the likely duration of the new circumstances. In situations where international staff cannot visit project sites, third-party monitoring would be engaged.

Box 10
Collaboration with RBAs in joint programming in Afghanistan

Collaboration with RBAs occurs in the joint programming in Afghanistan for the Arghandab Integrated Water Resources Development Project, leveraging private sector expertise in water resource development. Moreover, the project collaborates with private companies to develop new water-based businesses, generating employment opportunities and income for the Afghan population.

39. **Improved IFAD procurement processes.** IFAD should adopt robust but simplified and adapted procurement procedures in fragile situations. The risk associated with procurement in fragile situations may be substantially higher, for example when it comes to legal and regulatory frameworks, accountability and transparency, capability in public procurement and public procurement processes. As part of its crisis response (COVID-19 and the war in Ukraine), IFAD has developed guidance for simplified procurement procedures in recognition of the specific requirements of fragile situations.[144] It provides agile streamlined procedures to minimize the impact of supply chain disruptions, while ensuring transparency and accountability in the use of public funds. Procurement must also consider the "do no harm" principle. A dedicated "do no harm" analysis will be included in IFAD procurement processes in fragile situations as part of the risk management approach.

40. **IFAD's approach for dealing with de facto governments.** A core principle of IFAD's approach, as noted in section II above, is to stay engaged whenever possible, particularly during times of crisis. This includes periods in which there is a "de facto" government. IFAD has revised its internal guidance note on **dealing with a de facto government** to offer guidance to country teams and management on how to manage ongoing programmes and those under design. It indicates the red lines (i.e. compliance with IFAD policies), as well as how to work

[144] IFAD, 2023. Simplified Project Procurement Procedures for Fragile and Conflict Affected Situations: Guidance Note for IFAD Borrowers and IFAD Staff.

with the United Nations and other development partners in the context of a de facto government.

41. **Addressing the security risks of staff and partners.** Staff and partner security risks are a particular area of concern for IFAD and especially so in fragile contexts associated with increased conflict. Some fragile contexts can pose multiple risks – including interpersonal and criminal violence, sexual violence or the deliberate targeting of development project assets and personnel. IFAD continues to draw on advice and technical support from key partners – other IFIs and especially the United Nations Department for Safety and Security (UNDSS) – regarding staff and partner security. While decision-making (e.g. around acceptable risks in missions and field presence) will always remain with IFAD country directors, staff will need to seek guidance from UNDSS on insecurity and threat levels and the required mitigation measures. IFAD will ensure that staff have access to and appropriate training on all the safety and security equipment required for safe operation in the context.

Operational costs of IFAD's updated approach to fragility

42. Implementation of IFAD's updated approach to fragility will require additional resources, some of them for one-off costs (e.g. to update operational systems or design training modules) and others for increased marginal recurrent costs on top of the resources currently allocated for activities such as enhanced fragility assessments. Incremental costs vary widely, depending on context and type of fragility. Wherever possible, IFAD will share analyses and partner with other agencies to reduce costs. Notwithstanding, as the Fund already works in fragile settings, many of these costs are already built into IFAD's programme budgets; however, some will need additional investment.

43. Cost drivers could include the following: (i) enhanced fragility assessments at COSOP/CSN; (ii) enhanced fragility assessments at design, including institutional capacity assessments, enhanced IPRM and, depending on the context, additional security costs in active conflict; (iii) SECAP studies (partial to full ESCMF, depending on the degree of social and climate fragility); (iv) project supervision, including third-party monitoring; (v) fragility unit; and (vi) staff training. The development of strong partnerships is expected to mitigate cost increases in at least some of these areas, and efficiency and cost-effectiveness considerations can and should be pursued to guide the definition of specific actions to take under this updated approach.

44. The revised fragility assessment will likely require some additional resources. While a robust analysis and deeper understanding of these costs are needed for IFAD-specific investments, **incremental** costs over and above those already covered are estimated to range from US$15,000 to US$40,000 per COSOP; from US$15,000 to US$50,000 per project design; from US$25,000 to US$50,000 for SECAP, and from US$15,000 to US$50,000 for project supervision, depending on the type and extent of fragility, as well as the availability of data from development partners. Some of these costs are already built into annual programme budgets. Eighty per cent of cases fall within the minimum range.

45. Project design and supervision in fragile situations will also entail incremental costs in certain situations for contracting additional experts to design project interventions to address drivers of fragility (i.e. weak institutions, social inequalities and climate impact). However, the incremental costs will likely vary widely, as they depend on the context, such as the drivers and extent of fragility. They will also depend on factors such as cofinancing arrangements. There are examples where most design and supervision costs have been absorbed by partner IFIs. In situations where IFAD needs to contract service providers for third-party monitoring, these costs would also be incremental.

46. The new fragility unit embedded in OPR in the Programme Management Department, whose functions are described above, will also have its own costs, which, at least in the initial years, will be covered by supplementary funds and secondments (initially for two people), after which the experience will be assessed to enable IFAD to devise an appropriate way forward to maintain the services and capabilities enabled by the unit. A community of practice on fragility, led by the unit and comprised of regional focal points, would be a source of support for country teams under this enhanced approach. Furthermore, the unit will develop a more nuanced understanding of costs and additional sources of funding, such as the United Nations Peacebuilding Fund. Based on a better understanding of costs, IFAD will be better able to resource project costs in fragile contexts.

Leveraging new sources of finance to raise ambition and heighten impact in fragile situations

47. In the coming years, IFAD's ambition to double its impact in a world where poverty is increasingly concentrated in fragile contexts requires it to aspire to heighten its impact in these contexts as well. As an assembler of finance, IFAD has the opportunity to leverage new sources of finance linked to specific dimensions of fragility, notably limited capacity to withstand climate shocks and high exposure to such shocks. In addition, sources of finance devoted to humanitarian and United Nations peacebuilding efforts can be leveraged in situations of clear complementarity with IFAD's specific mandate and focus, as demonstrated by IFAD's existing partnership with the United Nations Peacebuilding Fund. Depending on the context, private financial flows, including remittances and diaspora investments, can also be leveraged for synergistic impact, and here, IFAD can take advantage of its hosting of the Financing Facility for Remittances and the Private Sector Financing Programme's convening and investment capabilities. IFAD also has a number of financing mechanisms financed with supplementary funds that focus on specific aspects of the consequences of fragility, for example, FARMS – the Facility for Refugees, Migrants, Forced Displacement and Rural Stability – and the Crisis Response Initiative, which are also designed to leverage crisis response financing to complement medium-to- longer-term resilience investments financed through the IFAD portfolio. Going forward, and guided by its Member States, IFAD may leverage these experiences to further diversify its financial instruments to strengthen its capacity to deliver investments across different stages of fragility within the scope of its mandate. Given the proven utility of grant funds in many fragile situations, the interest of Member States and other partners in providing dedicated funds for these purposes and the high probability of future needs, it may be advantageous for IFAD to establish a more permanent mechanism – a standing trust fund with specific windows – that could be used to meet these demands when circumstances permit.

Timeline and initial activities

48. Implementation of this updated operational approach will begin in 2023 and continue into IFAD13, beginning with the establishment of the fragility unit. Establishing this unit will enable progress to be made on the remaining features of this approach, including:

(i) In close consultation with all relevant departments and divisions, the development of updated templates and guidelines for **fragility assessments at the COSOP level,** scoping opportunities for partnerships to conduct fragility assessments or leverage data and analytics from others (e.g. the World Bank, WFP) or conduct joint fragility assessments;

(ii) Development of a **new template for fragility assessments at the project design level;**

(iii) Design and coordination of **a concise, fit-for-purpose internal cost assessment agenda** to unpack the different incremental costs or savings associated with operating more effectively in different types of fragile situations and guide decisions on operational investments and the strengthening of different aspects of the proposed programmatic approach (e.g. conflict assessments, contingency budgeting, third-party implementation and greater use of ICTs for targeting, supervision and monitoring);

(iv) **Mapping and prioritization of key ongoing and potential partnerships** aligned with the IFAD partnership strategy and inspired by the pursuit of efficiency and cost-effectiveness that can strengthen IFAD's operational delivery to promote rural resilience in fragile situations, with clear recommendations for actions where formalization of partnership in specific areas (e.g. fragility assessment or joint programming) is needed;

(v) Identification of **existing operational staff development tools and priority gaps** to be filled to strengthen the capacity of staff both in the field and at headquarters to operate in fragile contexts and service programmes targeting fragile contexts, with a view to launching new training and capacity-building activities, as appropriate.

(vi) Identification, in close collaboration with all relevant departments, of **priority areas for adapting internal systems and processes as listed above**, especially in procurement, financial management, third-party implementation and project budget categorization and allocation, and of priority steps to be taken to address these areas in IFAD13.

49. The following table summarizes the main differences between the current and updated operational approach.

Table 1
How key elements will be enhanced in IFAD13

Key Elements	*Now*	*IFAD13 enhanced*
Principles of engagement	• No specific principles.	• Four principles of engagement: (i) build resilience; (ii) focus on prevention; (iii) do no harm; and (iv) remain engaged.
Entry points	• Strengthening local institutions and communities for effective local governance and service delivery. • Increasing food and nutrition security through enhanced food systems. • Fostering sustainable natural resource management, including disaster preparedness and climate adaptation. • Boosting women's role in building resilient communities.	• The same entry points are retained.
Diagnostics	• Fragility assessments required for all countries on the Harmonized List of Fragile Situations. • Fragility assessments inform country strategies (COSOP/CSN) only in terms of phasing, risks, goals, partnerships, financing, and implementation arrangements – including only four questions. • Use of analysis by governments and other development partners in fragility assessments. • Financial management assessment and control throughout the project cycle, based on the risk-based assurance framework for both fragile and non-fragile contexts.	• A comprehensive fragility assessment that captures the root causes and complexity of fragility in situations deemed fragile. • In-depth analyses of the different dimensions: political, institutional, social, economic, security, and environmental factors of fragility to be included in country strategies and project designs. • Tailored targeting and social inclusion in fragility assessments. • Access to fragility data from partner agencies to conduct analysis. • Inclusion of less complex designs, contingency plans, multiphased programming and crisis and disaster risk reduction as a (sub)component. • Deeper analysis of the underlying causes of fragility and how they impact relevant national

Key Elements	*Now*	*IFAD13 enhanced*
		and local institutions providing public financial management services and fiduciary assurance.
Programming	• Standard design approach. • Strengthening resilience as an explicit objective of country strategies in fragile situations. • Focus on selected entry points with demonstrated effectiveness in addressing fragility and building resilience, institution-building, food security and nutrition, and natural resource management.	• Fragility-sensitive programming: Adoption of a flexible adaptive approach to project design and implementation in fragile situations, including less- complex designs, and contingency plans. • Adoption of contingency plans to respond swiftly to changing contexts by incorporating crisis and disaster risk reduction (sub)components into programming, plans for worst-case scenarios and speedy action. • Implementation of MPPAs to build the capacity of local institutions and resilience to address weak local capacities, ensure prudent financial management and procurement processes and deal with de facto governments. • Exploration of opportunities to collaborate with the private sector in agriculture, rural enterprise, and market-based solutions.
Stronger support	• Fragility assessments inform project designs in fragile situations, including detailed integrated risk frameworks. • Use of third-party implementation in countries with weak institutions or government involvement in conflicts. • Consideration of project restructuring and additional financing for ongoing projects in response to crises. • Use of Faster Implementation of Project Start-up instruments to accelerate project start-up and improve implementation readiness. • Standard procedures for M&E. • Standard procurement procedures.	• Creation of a fragility unit with dedicated experts to support operational delivery, policy coordination and knowledge-sharing. • Development of specific operational guidance tailored to working in fragile situations. • Effective management of third-party implementation arrangements. • Customized training for staff. • Improved learning from results, systematic assessments and the use of ICT tools. • Expanded use of ICT4D and digital M&E systems. • Simplified but rigorous adapted procurement procedures in fragile situations.
Strategic partnerships	• A focus on fewer, more strategic partnerships for a coordinated and coherent approach to fragility. • Engagement with governments and partners to build an enabling legal and policy framework for sustainable natural resource management.	• HDP nexus: Broadened and deepened partnerships with actors in the nexus (WFP, FAO, IFIs, civil society and private sector). • Promotion of joint planning, analysis and programming to address interconnected challenges. • SSTC will also play a role in strengthening partnerships for improved practice. • Strategic partnerships through networks (GNAFC, INCAF and MDBs) and exploration of cofinancing, joint programming, and joint advocacy opportunities.

IV. Other organizations' approaches to fragility

50. The **World Bank's approach**, defined in the World Bank Group's Strategy for Fragility, Conflict and Violence 2020-2025, starts with the data showing the concentration of poverty in fragile situations and notes that preventing and mitigating fragility, conflict and violence will be key to progress on the Sustainable Development Goals. It commits to scaling the type and volume of financial support to fragile contexts and highlights the key role of the private sector. The World Bank highlights four pillars of its approach:

- Preventing conflict and interpersonal violence – by addressing their drivers, including climate change, gender inequalities, discrimination, exclusion, grievances and injustice;

- Remaining engaged during conflict and crisis – to preserve development and build resilience;
- Helping countries transition out of fragility – by building the social contract and the private sector;
- Mitigating the spillover of fragility, conflict and violence – by dealing with the cross-border effects.

51. The strategy also includes a series of measures to operationalize the strategy across four domains:

- Policies, processes and practices - including measures to improve flexibility, monitoring and working in humanitarian crises;
- Programming – including better analysis (fragility assessments), linking programming to analysis, applying conflict filters and peace lenses, systematizing conflict sensitivity;
- Partnerships – strengthening partnerships with humanitarian actors, other MDBs, regional organizations and civil society organizations;
- Personnel – including additional staff in FCS, incentives for staff to work in FCS, enhanced learning and support for staff in FCS.

52. The **African Development Bank (AfDB)** employs an approach broadly similar to that of the World Bank, as defined in the African Development Bank Group's Strategy for Addressing Fragility and Building Resilience in Africa 2022-2026. It starts with a poverty-focused diagnostic similar to that of the World Bank and highlights fragility as the condition where countries are subject to pressures that threaten to overwhelm their capacity to manage them, creating the risk of instability. It notes that such states may be facing deficits in authority, legitimacy or capacity, and that each situation is unique, requiring distinct responses. The approach sets out three interconnected priorities:

- Strengthening institutional capacity – focused on core economic and financial government functions;
- Building resilient societies – through infrastructure investments in energy, transport, water and sanitation and social and rural infrastructure (the AfDB's comparative advantage);
- Catalysing private investment – and job creation, by improving the business environment, value chains and skills, including those of women and youth.

53. It also includes six guiding principles for implementation:

- Prevention – use fragility assessments to anticipate risks and identify opportunities to build resilience;
- Selectivity – prioritize the areas that make the greatest contribution to resilience and cross-cutting commitments (e.g. on gender, youth and climate change);
- Patience – provide long-term support and remain engaged during instability;
- Do no harm – ensure conflict sensitivity and environmental and social safeguards;
- Ownership – work with governments, local and regional parties and non-state actors;
- Partnerships – with development and humanitarian partners – including the HDP nexus.

54. The **World Food Programme** Strategic Plan 2022-25 highlights WFP's role in addressing climate change and meeting acute humanitarian needs in food security

in many fragile situations. FAO published Operationalizing Pathways to Sustaining Peace in the Context of Agenda 2030 – A how-to guide in 2022. It sets out commitments to address fragility, ranging from guidance on natural resource management and strengthening conflict resolution mechanisms to supporting more inclusive decision-making and maintaining the viability of agricultural livelihoods.

Terms and conditions of concessional partner loans

Note to Members

The terms and conditions of concessional partner loans included here are based on the version included in the IFAD13 Business Model and Financial Framework paper (IFAD13/2/R.2). The main changes relate to the inclusion of the calculated IFAD13 CPL discount rates. These have been calculated based on data as of 30 September 2023. Other changes are editorial in nature or for clarity of wording.

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 closely match the repayment terms of IFAD blend 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 (or one of its state-supported institutions) 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 (excluding DSF contribution)	20
	Contribution in grant element of CPL	10
IFAD12	Core contribution (excluding DSF 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 CPL provider (i.e. a Member State or one of its state-supported institutions) 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 lending within IFAD's overall PoLG, 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 specific earmarking to a subset of assets can be considered, if the proposed theme is in line with IFAD's core mission and has strong linkages to IFAD's loan portfolio in its entirety. CPLs for climate may be considered given the significant integration of climate finance within the IFAD PoLG and the IFAD13 focus on strengthening IFAD's toolkit to mobilize climate finance for small-scale farmers. CPL resources will be allocated through the performance-based allocation system to Member States borrowing on terms comparable to or higher than those applicable to the CPL, as appropriate, therefore covering the whole set of lending products offered by IFAD. As CPLs are part of IFAD's core resources, no dedicated reporting on resource distribution (countries or amount of resources), use or results achieved through them is foreseen for this type of contribution.

(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. A CPL from a state-supported institution will also entitle the relevant Member State that owns or controls such agency to receive voting rights for the grant element of the CPL.

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

B. IFAD13 discount rates and grant element

1. All CPL parameters, including discount rates, financial equivalent interest rates between different currencies, and illustrative grant elements, are based on data as of 30 September 2023. Grant elements for IFAD13 CPLs are derived using the IFAD13 discount rates. The discount rates are calculated based on a proxy of IFAD's own funding cost. All else equal, the higher the interest rate on the CPL, the lower the concessionality and the grant element. Table 2 below shows the discount rate applicable for IFAD13 CPLs.

Table 2
IFAD13 discount rates
(Percentage)

Currency	*25-year CPL*	*40-year CPL*
Special drawing rights (SDR)	4.82	5.29
United States dollars (US$)	5.23	5.54
Japanese yen (JPY)	1.50	1.86
British pound sterling (GBP)	4.67	5.22
Euro (EUR)	3.72	4.25
Chinese renminbi (RMB)	8.23	9.17

2. The maximum interest rate on any CPL that IFAD can accept is a 1 per cent rate in SDR terms. Equivalent maximum interest rates for other SDR basket currencies are shown in table 3. The maximum interest rate is driven by the assets to be financed by the CPLs, and the need to respect the condition of non-subsidization of borrowing. The difference between the actual interest rate on the CPL and the currency's maximum interest rate (if the former is higher than the maximum rate) would have to be covered by an additional up-front grant payment from the Member State to IFAD.

Table 3
IFAD13 CPL maximum interest rates
(Percentage)

Currency	*25-year CPL*	*40-year CPL*
Special drawing rights (SDR)	1.00	1.00
United States dollars (US$)	1.29	1.14
Japanese yen (JPY)	(1.51)	(1.11)
British pound sterling (GBP)	0.84	0.91
Euro (EUR)	0.20	0.40
Chinese renminbi (RMB)	3.15	2.89

3. An interest rate floor of 0 per cent will be applied for CPLs in currencies for which the equivalent of 1 per cent of SDR is negative. In IFAD13, it will be applicable only for CPLs denominated in JPY. In this case, Member States would provide a loan at 0 per cent interest rate and an up-front supplemental grant.

4. Tables 4a and 4b show different interest rate levels in SDR terms, financially equivalent interest rates in other currencies[145] of the SDR basket, and the illustrative grant element embedded in those loans. Each column of the table represents financially equivalent interest rates to ensure reaching an equal grant element. The final grant element of the CPL will be calculated by applying the discount rates in table 2 and the actual disbursement schedule of the CPL agreed with the Member State providing the CPL.

Table 4a
Interest rates of SDR, financial equivalent interest rate in SDR basket currencies and illustrative grant elements (25-year CPL)
(Percentage)

25-year CPL with three-year disbursement schedule					
Currency	**Interest rates**			*Requires up-front grant payment*	
Special drawing rights (SDR)	**0.00**	**0.50**	**1.00**	**1.50**	**2.00**
United States dollars (US$)	0.27	0.78	1.29	1.81	2.32
Japanese yen (JPY)	(2.29)	(1.90)	(1.51)	(1.12)	(0.72)
British pound sterling (GBP)	(0.15)	0.34	0.84	1.33	1.83
Euro (EUR)	(0.72)	(0.26)	0.20	0.66	1.13
Chinese renminbi (RMB)	1.91	2.53	3.15	3.77	4.39
Grant element	**47.00**	**42.06**	**37.13**	**32.20**	**27.26**

Table 4b
Interest rates of SDR, financial equivalent interest rate in SDR basket currencies and illustrative grant elements (40-year CPL)
(Percentage)

40-year CPL with three-year disbursement schedule					
Currency	**Interest rates**			*Requires up-front grant payment*	
Special drawing rights (SDR)	**0.00**	**0.50**	**1.00**	**1.50**	**2.00**
United States dollars (US$)	0.11	0.63	1.14	1.65	2.16
Japanese yen (JPY)	(1.79)	(1.45)	(1.11)	(0.76)	(0.42)
British pound sterling (GBP)	(0.08)	0.41	0.91	1.41	1.90
Euro (EUR)	(0.50)	(0.05)	0.40	0.85	1.30
Chinese renminbi (RMB)	1.39	2.09	2.79	3.48	4.18
Grant element	**68.43**	**61.88**	**55.33**	**48.77**	**42.22**

C. Determination of the grant element

5. 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:

$$\mathbf{1} - \frac{\sum_{i=1}^{n}(\boldsymbol{DF_i} \times \boldsymbol{CFS_i})}{\sum_{j=1}^{n}(\boldsymbol{DF_j} \times \boldsymbol{CFD_j})}$$

[145] Please note that in order to obtain financially equivalent interest rates, a cross currency swap was simulated. Estimated swap costs were also considered when calculating financial equivalent interest rates for all CPLs other than those denominated in US$ and EUR

Where:

DF_i = Discount factor at period i, calculated using the IFAD13 discount rates;

CFS_i = Cash flow from debt service at period i;

DF_j = Discount factor at period j, calculated using the IFAD13 discount rates;

and

CFD_j = Cash flow from loan disbursement at period j.

D. Additional considerations

6. **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.

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

8. 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).

9. 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.

10. 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.

11. **Interest rate floor.** An interest rate floor will be required for CPLs denominated in currencies for which the equivalent of 1 per cent of SDR (maximum interest rate on CPLs) 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.

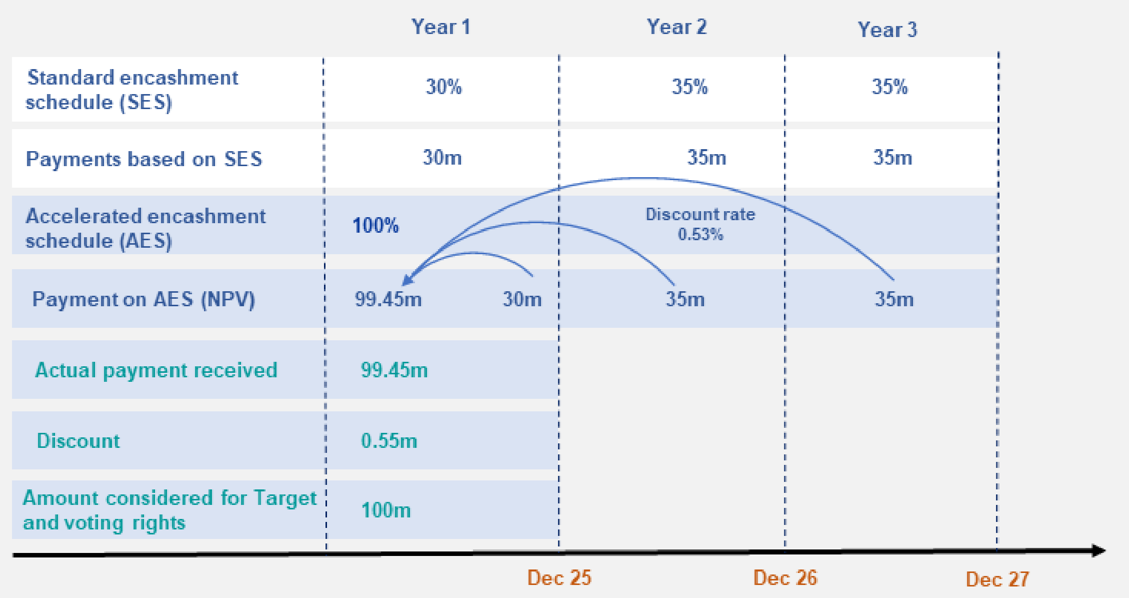
12. **Additional grant payments**. In case an additional grant payment is required (either to meet the interest floor requirement or if the Member State wishes for an interest rate higher than the maximum interest rate), the amount will be calculated based on the present value of the difference in future cash flows calculated with the final interest rate and the maximum interest rate. The same discount rate as provided in table 2 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 core replenishment contributions

1. The mechanism for early encashment of core 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.[146]
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 core 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.[147]
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.
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.

[146] 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".
[147] Based on reported investment portfolio absolute return for 2022.

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



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 core pledge of US$100 million and early encashment of US$100 million in one lump sum in year 1

12. The reference discount rate will apply to all IFAD13 core 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

Note to Members

The following annex is based on the version posted online for comments following the second session of the IFAD13 Consultation.[148]

This updated annex takes into account feedback received from Member States, including with regard to the following key points:

(i) **Voting rights.** Based on comments received there is a stronger consensus around option 2 (50 per cent voting rights). This has therefore been maintained for the current version of this annex and option 1 (100 per cent voting rights) has been removed.

(ii) **Substitution risk.** While suggestions were received for a number of alternative rules to avoid substitution risk, there appears to be a stronger consensus for a rule whereby for a Member State to access voting rights in relation to ACCs, the Member should make a core pledge for IFAD13 in an amount of at least 100 per cent of their most recent core contribution in nominal terms and in local currency. While Management does not have significant concerns in practice about substitution risk in this context, Management views this proposal as straightforward and better for mitigating potential substitution risk at the level of individual Member States given that for many, their IFAD12 core contribution was their highest for many replenishments. This threshold, combined with the provision of a lower level of voting rights compared to core contributions, is proposed as an adequate mechanism to manage substitution risk.

Other clarifications were provided based on Member States' feedback regarding: (i) the unique linkage between climate and agriculture that makes this core contribution appropriate and thus not to be considered as a precedent for other thematic core contributions in the future; (ii) the direct impact of ACCs on increasing the availability of BRAM financing, with a granular estimate of such linked increase; and (iii) the use of "climate top-ups" exclusively to enhance ex ante the climate focus of IFAD's regular projects and programmes (and not to finance standalone climate-specific projects).

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.[149] This hampers smallholders' ability to make the necessary investments to reduce their vulnerability to climate change. Failure to substantially scale 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.

[148] IFAD13/2/R.2/Add.2/Rev.1.

[149] Examining the climate finance gap for small-scale agriculture (November 2020). Available here. In 2019–2020 that share is likely to have fallen to about 1 per cent (internal calculations).

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.[150] 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). While not setting a precedent for other future thematic core contributions, given the inextricable linkage between climate and agriculture, this would be realized through the establishment of additional climate contributions (ACCs) as a unique new form of voluntary 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 regular 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 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)[151] would benefit from "climate top-ups", distributed using the PBAS, in an amount equal 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. Indicatively, contributions of US$100 million in the form of ACCs would catalyse an additional envelope of US$30 million from the borrowed resources to be made available

[150] 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.

[151] 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.

through the BRAM. These amounts are integrated into the IFAD13 scenarios presented in this report.

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 in IFAD's regular projects. 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. Likewise, the related increase in BRAM resources will be subject to the normal BRAM financing terms and conditions of the country, through the existing BRAM which operates on a demand-driven basis, taking into account IFAD's existing financial risk management criteria.

7. **Financing terms and conditions.** All increased climate finance related to ACCs (the climate top-ups for PBAS-eligible countries and the increased BRAM resources) will be made available to each country on its usual lending terms and finance conditions, including for countries eligible for grant financing under the Debt Sustainability Framework. Therefore, for countries accessing finance through the BRAM, it would be through that same mechanism; similarly, for countries accessing finance through the PBAS, it would be through that system. Many of the most climate-vulnerable countries are also affected by debt distress and would therefore benefit from 100 per cent grant financing.[152] Eventual reflows would be considered part of IFAD's normal core resources.

8. **Activities to be financed.** Climate top-ups would be integrated ex ante into the design of regular IFAD projects to further support 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 they 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, to be used jointly in the development of new operations or additional financing during IFAD13. As such, climate top-up financing would always be used in combination with other IFAD financing to enhance the climate focus of larger investments and would not be used to finance separate standalone projects. Climate top-ups would therefore be fully integrated into the overall 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 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.

[152] 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.

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 at least 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 provide additional reporting using the Rio Markers Methodology during IFAD13.

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.

Nevertheless, in recognition of the primary importance of core contributions and in order to manage substitution risk, ACCs will 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 is now included in the draft IFAD13 Resolution and does not require amendment of 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. 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 (50%)**	**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, ex ante 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,[153] 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,[154] with many of the most vulnerable countries benefiting from 100 per cent grant financing. BRAM borrowers will also benefit from increased availability of borrowed resources due to the ACCs, given IFAD's ability to leverage the increased equity therefrom to increase borrowing. 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.[155] 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 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

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[153] IFAD's performance-based allocation system: Frequently asked questions.
[154] 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."
[155] 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.

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.

Exchange rates for IFAD13

1. For each of IFAD's replenishments – from IFAD2 to IFAD12 – the Governing Council adopted a replenishment resolution that included a paragraph establishing the fixed reference exchange rates to be applied to freely convertible currency contributions made in a currency other than the United States dollar. This was implemented to assist Member States in deciding the level at which to pledge their contributions. A similar paragraph is included in the IFAD13 Resolution.

2. In accordance with the practice followed in prior replenishments, the six-month exchange rate reference period for IFAD13 is set to the immediate six months including and prior to 30 September 2023.

3. The month-end exchange rates established by the International Monetary Fund for April to September 2023 against the United States dollar are set out for all relevant freely convertible currencies in table 1. Table 2 provides the month-end average for the six months from April to September 2020 applicable to IFAD12.

4. The fixed reference exchange rates applied to IFAD13 are set out in table 1 and those for IFAD12 are shown in table 2 for reference.

Table 1
Fixed reference exchange rates for IFAD13 (April to September 2023)

Currency	*April*	*May*	*June*	*July*	*August*	*September*	*Six-month average*
AUD	1.5129	1.5396	1.5083	1.4966	1.5420	1.5485	**1.5246**
CAD	1.3578	1.3603	1.3240	1.3177	1.3531	1.3520	**1.3442**
CHF	0.8956	0.9106	0.9010	0.8698	0.8812	0.9111	**0.8949**
CNY	6.9232	7.1088	7.2603	7.1473	7.2899	7.3037	**7.1722**
DKK	6.7879	6.9718	6.8089	6.7612	6.8571	7.0390	**6.8710**
EUR	0.9107	0.9361	0.9203	0.9072	0.9201	0.9439	**0.9230**
GBP	0.8023	0.8088	0.7907	0.7773	0.7886	0.81516	**0.7972**
JPY	134.05	139.80	144.88	140.92	146.07	149.440	**142.5267**
NOK	10.7376	11.2370	10.7712	10.1429	10.6551	10.6225	**10.6944**
NZD	1.6244	1.6618	1.6461	1.6205	1.6757	1.6762	**1.6508**
SDR	0.7424	0.7533	0.7518	0.7446	0.7519	0.7605	**0.7508**
SEK	10.2885	10.8339	10.851	10.5225	10.8668	10.8413	**10.7007**

Table 2
Fixed reference exchange rates for IFAD12 (April to September 2020)

Currency	*April*	*May*	*June*	*July*	*August*	*September*	*Six-month average*
AUD	1.5230	1.5017	1.4571	1.3864	1.3598	1.4068	**1.4391**
CAD	1.3910	1.3787	1.3628	1.3404	1.3042	1.3339	**1.3518**
CHF	0.9705	0.9616	0.9505	0.9083	0.9048	0.9220	**0.9363**
CNY	7.0543	7.1463	7.0681	6.9855	6.8561	6.8086	**6.9865**
DKK	6.8577	6.6938	6.6553	6.2831	6.2344	6.3599	**6.5140**
EUR	0.9195	0.8980	0.8930	0.8440	0.8375	0.8541	**0.8744**
GBP	0.7994	0.8114	0.8150	0.7612	0.7517	0.7793	**0.7863**
JPY	106.58	107.14	107.72	104.55	105.37	105.79	**106.1917**
NOK	10.2832	9.6875	9.7446	9.0583	8.7563	9.4814	**9.5019**
NZD	1.6324	1.6121	1.5562	1.4923	1.4839	1.5145	**1.5486**
SDR	0.7319	0.7289	0.7269	0.7077	0.7048	0.7104	**0.7184**
SEK	9.8463	9.4682	9.3490	8.6536	8.6419	8.9883	**9.1579**

Month-end exchange rates. Exchange rates rounded to the fourth decimal point.

AUD Australian dollar
CAD Canadian dollar
CHF Swiss franc
CNY yuan renminbi
DKK Danish krone
EUR euro
GBP pound sterling
JPY Japanese yen
NOK Norwegian krone
NZD New Zealand dollar
SDR special drawing rights
SEK Swedish krona

Draft Resolution on the Thirteenth Replenishment of IFAD's Resources

Please see document IFAD13/3/R.2/Rev.1/Add.2.

Pledging guidelines and Members' contribution pledges to IFAD13

I. Overview

1. This annex provides guidance on the pledging process for IFAD13 and records Members' contribution pledges. Pledges received are recorded in appendix III of this annex.

2. During the IFAD13 period, the Fund shall accept additional contributions from Member States in the form of core contributions, additional climate contributions (ACCs), the grant element of concessional partner loans (CPLs) and the discount or credit generated from early encashment of core contributions. Member States are also encouraged to provide supplementary funds to support other initiatives within IFAD's broader programme of work, but only after maximizing their replenishment contributions.

II. Making a pledge

3. A pledge is the communication of a Member's intention to contribute to IFAD's replenishment. Pledges may be communicated in writing by an authorized representative of a Member State or verbally announced at the Fund's Governing Council, Executive Board or Replenishment Consultation sessions, or in another meeting, if witnessed and documented by two senior officials of the Fund.

4. Members are invited to formally announce their IFAD13 pledges at the main pledging session to be held during the fourth session of the IFAD13 Consultation in Paris on 14-15 December, or at another time – preferably no later than the last day of the six-month period following the adoption of the IFAD13 Resolution. Early pledges are encouraged to help build positive momentum for IFAD13.

5. For IFAD13, Member States are encouraged to pledge the following contributions to the Fund:

   (i) **Core contributions**. These yield contribution voting rights and constitute the majority of the Fund's resources. Core contributions remain IFAD's preferred option for replenishment contributions, as they ensure the long-term sustainability of the Fund and form the core of IFAD's governance. Pledges for core contributions should be followed by submission of an instrument of contribution (IOC) or direct cash payment.

   (ii) **Additional climate contributions.** ACCs are established for the first time in IFAD13 as an additional means of contributing to the Fund's core resources but with the assurance that 100 per cent of the funds will be used to support climate-related investments eligible to be considered climate finance in line with the multilateral development bank methodology. ACCs shall be made in accordance with the conditions for contributing and modalities for use of ACCs provided in the note annexed to the IFAD13 Report.

   (iii) **Concessional partner loan.** A CPL is a loan provided by a Member State or state-supported institution that includes a grant element for the benefit of the Fund. For IFAD13, CPLs will be provided in accordance with the terms of the CPL Framework included in annex V of this report and approved by the Governing Council. The term "state-supported institution" includes any state-owned or state-controlled enterprise or development finance institution of a Member State with the exception of multilateral institutions. Only the grant element of the CPL shall be considered a contribution to the replenishment and therefore eligible for voting rights. The grant element of the CPL will be calculated using the discount rates determined for IFAD13 in accordance with the agreed formula and provided in annex V of this report. 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 a 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 IFAD12 and IFAD11 contributions). Other types of contributions, such as additional climate contributions, do not count towards meeting the grant contribution benchmark. In accordance with the CPL Framework, only CPLs of US$20 million or more will be accepted. The grant component of the CPL yields voting rights in the equivalent amount. The full amount of funds provided in the form of a CPL are allocated to IFAD's recipient countries through the performance-based allocation system as part of IFAD's core resources.

6. All donors considering CPLs are kindly requested to discuss the details of such loans with Management in advance of the pledging session to ensure that the loans meet the agreed-upon criteria. Additional information on pledging for CPLs is provided in appendix II of this annex.

7. Member States are also encouraged to provide supplementary funds and other kinds of contributions to support IFAD's broader programme of work, but only after maximizing their replenishment contributions. These other forms of contribution do not yield voting rights and will not count towards the IFAD13 replenishment target.

8. **Special contributions.** During the replenishment period, the Executive Board may accept, on behalf of the Fund, contributions to the resources of the Fund from non-Member States or other sources (special contributions).

9. **Debt Sustainability Framework (DSF).** IFAD has established a pre-funded mechanism under which financing for countries eligible to receive grants is based on upfront commitments to ensure full reimbursement of all approved DSF projects up to the end of IFAD11 and to secure upfront financing for new grants. Member States' core contributions will be used both to compensate for past DSF and finance new obligations. For Member States with outstanding DSF compensation under IFAD10 and IFAD11, such compensation shall be deducted from their IFAD13 contributions, in accordance with the relevant replenishment resolutions.

10. **Denomination of contributions and exchange rates**. In line with the IFAD13 Resolution, Member States shall denominate their contributions in: (a) special drawing rights (SDR); (b) a currency used for the valuation of the SDR; or (c) the currency of the contributing Member if such currency is freely convertible and the Member did not experience an inflation rate in excess of 10 per cent per annum on average in the period from 1 January 2021 to 31 December 2022, as determined by the Fund.

11. As for the exchange rate to be applied, the commitments and pledges made shall be valued on the basis of the average month-end exchange rate of the International Monetary Fund over the six-month period preceding the adoption of IFAD13 Resolution (1 April to 30 September 2023) between the currencies to be converted into United States dollars, rounded to the fourth decimal point. The exchange rates to be applied in IFAD13 are provided in annex VIII.

12. **New votes**. New replenishment votes shall be created in respect of core contributions, ACCs, the discount or credit generated from early encashment of core contributions and the grant element of any CPL provided under the Thirteenth Replenishment, in accordance with the terms of the IFAD13 Resolution. Votes are allocated only upon payment of contributions.

13. **Instrument of contribution**. Pledges are non-binding and should therefore be supported by either an IOC or a direct payment in full from a Member State. An IOC specifies the amount of a Member State's contribution under the terms and conditions of the replenishment resolution and is legally binding. The IOC also specifies the terms of contribution (category of contribution, form of payment, contingency of contributions, if applicable and number of instalments and timetable).

14. The deposit of Member States' instruments of contribution is important for triggering the effectiveness of the replenishment. Replenishment effectiveness is only reached when the aggregate United States dollar equivalent amount of IOCs deposited with, or payments received by, the Fund represents at least 50 per cent of the pledges received as of six months after the adoption of the IFAD13 Resolution. The resources under any given replenishment become available for commitment only when the replenishment becomes effective.

15. For further information on contributing to the Thirteenth Replenishment of IFAD's Resources, contact Ronald Hartman, Director, Global Engagement, Partnership and Resource Mobilization Division (r.hartman@ifad.org) or IFAD's replenishment team (replenishment@ifad.org).

Draft pledge letter

Mr President,

I am pleased to inform you that the Government of [name of country] intends to make a contribution to the Thirteenth Replenishment of IFAD's Resources (IFAD13):

Contribution

The contribution will be (delete if not applicable):

- A core contribution of:
  [*amount in US$ or other currency*]
- An additional climate contribution of:
  [*amount in US$ or other currency]*

Payment

It is our intention to (delete as appropriate) [make a single upfront payment][make separate upfront payments for each type of contribution][submit an instrument of contribution confirming the amount of the contributions, the form of payment, and the number of instalments and timetable.]

Concessional partner loan (delete if not applicable)

The Government of [*name of country*] also intends to provide a concessional partner loan in the amount of [*US$ or other currency*]. Details are provided in the attached CPL pledging form.

Yours sincerely,

Pledging of concessional partner loans

1. **Pledging for concessional partner loans**. In order to facilitate the swift and accurate recording of CPLs, donors intending to make verbal pledges of CPLs are asked to also complete the pledging form for CPLs (see below).

2. Donors are encouraged to provide Management with a copy of the completed pledging form **before** the meeting in which the pledge is made, especially if a custom encashment schedule is required. The draft pledging form will remain strictly confidential until announced by the donor. Donors may also present a copy of the completed pledging form at the session. Donors and IFAD Management will need to verify all CPL pledges before the session ends and confirm whether they are aligned with the CPL Framework. A Member providing a CPL is required to deposit its IOC for the amount of its core contribution before entering into a CPL agreement with IFAD.

3. Donors are asked to announce their CPL pledges following these guidelines and the sample form for a CPL pledge provided below:

   (i) **CPL currency:** Please indicate the currency of the CPL. IFAD will primarily accept CPLs in SDR, United States dollar and euro, which match denomination currency of IFAD's loans. Alternatively, CPLs in other SDR basket currencies (Japanese yen, British pound and Chinese renminbi) or any other currencies will be considered, subject to IFAD's assessed ability to swap those loans into United States dollar or euro. The SDR equivalent will be based on the reference exchange rate for IFAD13.

   (ii) **CPL amount:** Please indicate the total amount of the CPL in the chosen currency.

   (iii) **CPL grace period and maturity:** There are two possible options for donors. Donors can select a CPL with: (i) a 5-year grace period and 25-year maturity (5-25); or (ii) a 10-year grace period and 40-year maturity (10-40).

   (iv) **CPL coupon/interest rate** (in loan currency): Please indicate the CPL interest rate in loan currency.[156]

   (v) **CPL drawdown period**: Please indicate the number of years over which the CPL will be drawn down (one, two or three years).

4. If further assistance is needed in calculating CPL pledges, please contact IFAD's replenishment team (replenishment@ifad.org).

[156] If the CPL coupon rate is higher than the maximum coupon rate specified in the CPL Framework, the donor's grant contributions will need to include sufficient additional resources beyond the 80 per cent minimum defined by the Framework to: lower the coupon rate on the CPL; or provide a larger loan size if the maximum CPL rate under the Framework is negative in the currency of the CPL.

International Fund for Agricultural Development

IFAD13 pledging form for a concessional partner loan (CPL)

only to be completed if applicable

1. **CPL currency**	*Enter currency*
2. **CPL amount**	*Enter amount (in millions)*
3. **CPL grace period and maturity**	*Enter either 5-25 or 10-40*
4. **CPL coupon/interest rate in CPL currency***	*Enter rate*
5. **CPL drawdown period in years**	*Enter 1, 2 or 3 years*

* If the CPL coupon rate is higher than the maximum coupon rate specified in the CPL Framework, please indicate the arrangements made to meet the Framework (e.g. additional grant resources to lower the coupon rate or a larger loan size if the maximum CPL rate under the Framework is negative in the currency of the CPL). Management will confirm whether the arrangements are aligned with the CPL Framework.

Pledges to IFAD13 as at 17 October 2023

1. The status of pledges received for the Thirteenth Replenishment of IFAD's Resources (IFAD13) as at 17 October 2023 is submitted for the information of the Consultation. The status of IFAD13 pledges will be updated periodically and posted on the Member States Interactive Platform. It will also be updated at the Governing Council session in February 2024 to reflect additional pledges announced/received up to that point.
2. The total United States dollar value of pledges received for IFAD13 is calculated based on the official IFAD13 exchange rates provided in annex VIII. The total United States dollar value of pledges received for IFAD12 is calculated based on the official IFAD12 exchange rates.[157]

[157] The IFAD12 exchange rates are provided in annex IV of the IFAD12 Report (GC 44/L.6/Rev.1).

Table 1
IFAD13 pledges received as at 17 October 2023*

	IFAD13			*IFAD12*		
Member State	*Currency of pledge*	*Total in currency of pledge*	*Total pledges in US$*	*Currency of pledge*	*Total in currency of pledge*	*Total pledges in US$*
Cambodia	USD	1 000 000	1 000 000	USD	600 000	600 000
Cabo Verde	USD	34 707	34 707	USD	23 138	23 138
Côte d'Ivoire	USD	1 000 000	1 000 000	USD	216 633	216 633
Democratic Republic of the Congo	USD	500 000	500 000	USD	500 000	500 000
Djibouti	USD	100 000	100 000	USD	10 000	10 000
France	USD	150 000 000	150 000 000	USD	106 000 000	106 000 000
Ghana	USD	600 000	600 000	USD	2 000 000	2 000 000
Guinea Bissau	USD	100 000	100 000			*Last pledge: IFAD4 – US$25 000*
Niger	XOF	100 000 000	164 926	XOF	100 000 000	174 356
Norway	NOK	972 000 000	90 888 689	NOK	648 000 000	68 196 887
South Sudan	USD	100 000	100 000	USD	50 000	50 000
Spain	EUR	20 000 000	21 668 472	EUR	3 491 313**	3 992 810
Tajikistan	USD	10 000	10 000	USD	3 000	3 000
Total (US$)			**266 166 795**			**181 766 824**

* It is recognized that certain pledges in the table may be subject to clearance processes.
**Spain pledged EUR 5 million to IFAD12, but part was utilized for DSF compensation from previous replenishments in line with the relevant resolutions.